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SIGNATURE: _____ DATE: _____

PERMANENT ADDRESS: **2503 Fryklund Drive. Apt.8**
Menomonie, WI. 54751

PHONE: **(715)-233-0598**

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**An Industrial Analysis of the United States
Wine Industry, World Wine
Industry, and China
Wine Industry**

by

Chao Liang

A research Paper

**Submitted in Partial Fulfillment of the
Requirements for the
Master of Science Degree in
Management Technology**

**Approved for Completion of 3 Semester Credits
(150-780 The research on management)**

Research Advisor

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ABSTRACT

LIANG (Writer) (Last Name) (Initial)	CHAO (First Name)	
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(Title) An Industrial Analysis of United States Wine Industry,		
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A series of industrial analysis were adapted on three different market fields. These analyses explored different market environments. In each analysis of market environment, the primary factors, such as consumers, competitions, government public, were described respectively. These descriptions include three basic contents: current situation, future situation, and implications. Generally, the current market overview and market segmentation were utilized to represent the current situations of consumers and competitions. The Technological forces, Economic forces, Socio-Culture forces and legal/Government forces were identified to determine the tendency of market. The analysis shows the landscape of Wine Business in the United States, the New and Old

wine World, and China, as well as described the path to penetrate the big and promising wine market—China Wine market.

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Executive Summary

As a wine nation, the United States is a collection of contradiction and inconsistencies. Although the nation ranks as the fourth-largest producer of wine in the world, it ranks only 30th in annual per capita consumption. For many U.S. wineries, they have enough reasons to be proud to advertise the fact that their wines have been used at very important events, such as White House dinners. United States is the only nation in the world that applies both the labeling of "Health warning" and "Health effect of the wine".

The majority of modern American wineries have been located in California, with Washington and New York coming in a distant second and third. California has accounted for over 90 percent of all U.S. wine production and over 70 percent of all wine sold in the United States. U.S. wine exports, over 90 percent come from California. Approximately 46 percent of the U.S. Wine market are in five states: California, New York, Florida, Texas and Illinois.

Table wines, the most popular type of wine in the United States, are also the fastest growing. Domestically produced table wines, which account for about one-thirds of all U.S. table wines, comprise varietals and nonvarietals. The top five U.S. wine marketers accounted for 60 percent of wine category volume. They were E. & J. Gallo winery, Canandaigua Brands Inc., the Wine Group, Grand Metropolitan, and Sebastiani Vineyards.

U.S. wine export sales for 1997 have reached at \$425 million and 60 million gallons, a 30 percent and 26 percent jump respectively over 1996. The United Kingdom remained the largest export market with sales jumping 33 percent to \$108 million, and Canada accounted for \$79 million, up nine percent. The Asian financial crisis did not hamper gains for Japan, the third leading market, up 26 percent to \$40 million. High growth was also posted for Taiwan, up 321 percent to \$22 million, and Hong Kong, up 127 percent to \$13 million.

Unlike the appearing of wine in United States just 200 years ago. The wine industry is one of the oldest in the world and one of the most unique and interesting industries. With a long winemaking history, which is about 2000 thousand years long, the European Union produces 60 percent of world's wine and dominates the market both in quality and quantity. However, with the emerging of New World of wine, the tough competition has been brought to the Europe, as well as United States.

Almost every wine nation from the New World of wine is export-oriented, including United States; the most of vineries from these countries received the government's support. It has helped a number of wine-maker to export the wine to the target market. As the largest wine market, EU has been always applying the subsidy policies to protect their wine industry. That brought the New World of wine exporters a big difficulty.

As the big and promising wine market, China's market for wine, particularly drier Western-style wines, remains undeveloped. China's wine market and industries have significant room for growth. With a solid image and prestige, California wines have a valuable advantage in this market. With a clear landscape of china wine market, the 21st Century wine Co. will explore a best path, which brings the company landing China so that the company will be able to penetrate the promising market.

**Part I An analysis of the United
States' wine industry**

I. Industry Snapshot

The first commercial wine venture in the United States was in Pennsylvania in 1793. However, the majority of modern American wineries have been located in California, with Washington and New York coming in a distant second and third. California has accounted for over 90 percent of all U.S.ⁱ (the bold number with a underline represents the reference order which shows in the reference section, followings same) wine production (the total domestic wine production was 472 million gallons in 1998) and over 70 percent of all wine sold in the United States. In fact, wine is made in every region of the state. But if viewed as a nation, California (produced 422 million gallons wines in 1997) would rank sixth in worldwide wine production (France leads at 1,575 million gallons, Italy follows by 1,552 million gallons.), following Spain (863 million gallons) but bigger than Argentina (335 million gallons), Portugal (251 million gallons), and Germany (219 million gallons). California also has been the leader in wine sales and consumption in United States, accounting for over one-fifth of all wine consumed annually. In 1998, total wine consumption was 531 million gallons. U.S. wine exports, over 90 percent from California, reached \$425 million in 1997ⁱⁱ for a 30 percent increase over the previous year. Approximately 46 percent of the U.S. Wine market are in five states: California, New York, Florida, Texas and Illinois (See table 1 and table 2)

Today, wine is categorized by industry observers as follows: table wine (comprising about 84 percent of U.S. production); sparkling wine (6percent); special natural (5 percent); dessert wine (4 percent); vermouth (1 percent); and imported specialty (less 1 percent).

Table 1 **Top 10 market for wine**

Table 2 **Top 10 market for table wine**

(9-liter cases)	1992	1993
California	39,898	36,715
New York	17,821	16,729
Florida	12,348	11,571
Texas	10,867	10,397
Illinois	10,464	9,823
New Jersey	9,095	8,645
Massachusetts	7,442	7,053
Washington	6,152	5,741
Pennsylvania	5,635	5,345
Michigan	5,277	4,977
Top 10 total	125,000	116,996
U.S. total	200,824	187,813
% of total U.S.	62%	63%

Source: Jobson's 1994 handbook advanceⁱⁱⁱ

(9-liter cases)	1992	1993
California	31,307	29,466
New York	13,888	12,939
Florida	9,916	9,508
Texas	7,444	7,318
New Jersey	7,436	7,114
Illinois	6,348	6,127
Massachusetts	6,183	5,891
Washington	5,130	4,889
Pennsylvania	4,194	3,966
Virginia	4,050	3,909
Top 10 total	95,897	91,127
U.S. total	153,019	145,662
% of total U.S.	63%	63%

Source: Jobson's 1994 handbook advance^{iv}

Table wines, the most popular type of wine in the United States, are also the fastest growing. Domestically produced table wines, which account for about one-thirds of all U.S. table wines, comprise varietals (meaning made from a particular grape), and nonvarietals (made from two or more grapes). Varietals constitute the bulk of U.S. consumption. Compared with many other consumer product categories, the U.S. wine industry is consolidated less than either the beer or distilled spirits industries.

As reported by the research firm Impact Databank, the top five U.S. wine marketers in 1996 accounted for 60 percent of wine category volume. They were E. & J. Gallo winery, Canandaigua Brands Inc., the Wine Group, Grand Metropolitan, and Sebastiani Vineyards. (See table 3)

In 1996, U.S. wine industry's sales totaled about \$15 billion. They crushed more than two million tons of grapes grown on over 300,000 acres. Most of the grape-required

production by U.S. wine companies is produced domestically, principally in California and New York.

Table 3 TOP 10 WINE MARKETERS---1995 (In percent, ranked by Retail Share)

Rank	Company	Volume share(1995)	Retail share(1995)
1	E.&J. Gallo Winery	26.20%	15.70%
2	Canandaigua Wine Co.	17.90%	11.80%
3	Heublein Inc.	3.90%	5.00%
4	Brown-Forman Beverages	2.60%	4.20%
5	The Wine Group	9.50%	3.90%
6	Beringer Wine Estates	2.50%	3.80%
7	Robert Mondavi Winery	2.40%	3.60%
8	Joseph E. Seagram & Sons	1.30%	3.30%
9	Sebastiani Vineyards	3.50%	3.30%
10	Sutter Home Winery	2.90%	3%
	Total Top 10	72.60%	57.70%
	Other Marketers	27.40%	42.50%
	Total Wine Market	100%	100%

Source: Impact Databank^v

A boom in United States wine consumption started in the mid to late 1960s, and kicked into gear in 1976 when California wines swept top honors at a prestigious wine competition in Paris. Americans consumed only four-tenths of a gallon of wine in the 1990s. Still, the U.S. ranks near the bottom of the top 35 industrial nations in per capita wine consumption. In European and Latin American wine-producing countries, 10 gallons is the low side; 16 is the high (See table 4). This situation seems not to match the development and achievements that U.S. has approached in its wine industry. However, as a newcomer from this "New World" (refers to the new wine producing countries like Australia, Argentina, Chile, South Africa, and the United States), the United States has healthy wine industries which strive to stand on its own merits.^{vi}

Table 4 Per Capita Wine Consumption by Country (Liters and gallons per capita)

Country Rank	1996	1995	1980
--------------	------	------	------

	Liters	Gallons	Liters	Gallons	Liters	Gallons
1. France	60	15.85	63	16.64	90.87	24.01
2. Italy	59.37	15.68	62	16.38	79.81	21.1
3. Portugal	58.46	15.44	57.41	15.17	28.84	7.26
4. Luxembourg	50.4	13.31	---	---	---	---
5. Argentina	41.47	10.96	41.5	10.96	76.16	20.12
6. Sweetzland	41.47	10.88	36.9	9.75	47.02	12.42
7.Slovenia	38.8	10.25	32.9	8.69	---	---
8. Spain	37.71	9.96	28.8	7.61	59.91	15.83
9. Austria	32	8.45	30.93	8.17	35.45	9.37
10. Romania	31.5	8.32	30	7.93	---	---
11. Greece	30.93	8.17	30.7	8.11	34.97	9.24
12. Hungary	30	7.93	25.24	6.67	24.95	6.59
13. Ruugury	29045	7.78	25.5	6.76	12.78	3.38
14. Denmark	26.8	7.08	25.24	6.17	25.48	6.73
15. Germany	22.94	6.06	23.36	---	---	---
16. Belgium	20.01	5.29	---	---	---	---
17.Yogoslavia	19.9	5.28	15.1	3.99	17.3	4.57
18.Australia	18.1	4.78	18.3	4.83	17.38	4.59
19. Chile	15.8	4.17	15	3.96	50.24	13.27
20.Netherland	13.3	3.51	14.3	3.78	11	2.97

Source: Wine Institute based on the data from the Office International da la Vigne et du Vin (O.I.V.) and gomberg, Fredrickson & Associates, and Kristi Inie.

II. Consumers

1. Current Situation

A. Total U.S. Wine Market Overview

The wine market in the United States took off since the late 1960's and early 1970's and peaked in 1986 at just fewer 587 million gallons for the total consumption. By 1991, it had fallen back to about 466 million gallons. It climbed to 476 million gallons in 1992, receded to 449 million gallons in 1993 and went back up to 459 million gallons in 1994. During 1995-1998, the wine market has been taking expected steps going up. In 1995, 469 million gallons of wine were consumed and the consumers drank 36 million gallons more wine in 1996 than they did in previous year. By 1997, the figure went up to 523

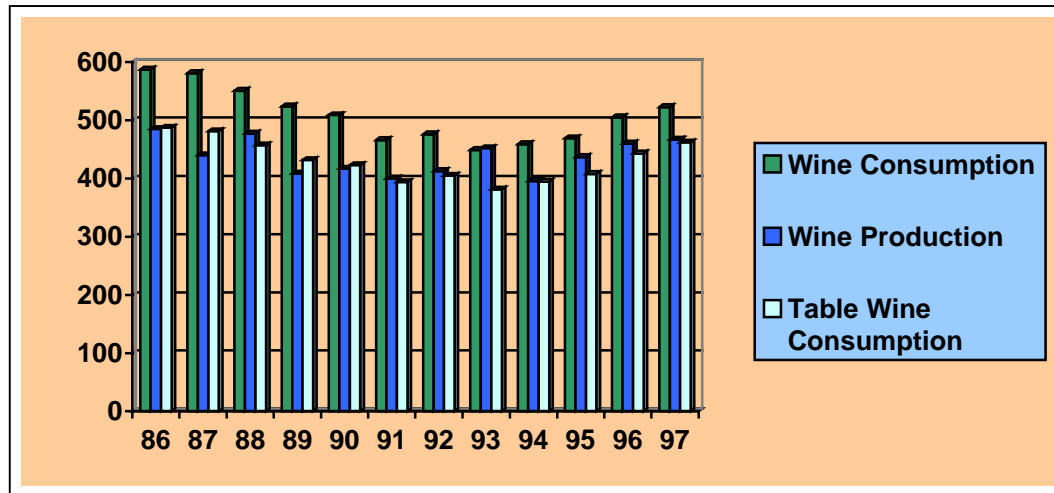
million gallons (see figure 1). Per-capita wine consumption among U.S. adults has crept up from 2.13 gallons in 1995 to 2.33 gallons last year, but it is still below the peak of 2.58 gallons set in 1982, according to Adams Media in New York^{vii}

Compared with 1986, Americas have been consuming smaller amounts of wine each year. After a peak year in 1986 (587 million gallons), consumption fell to the bottom at 467 million gallons in 1991, 449 million gallons in 1993, 459 million gallons in 1994(See table 2). Among the total production of wine in U.S.A., today, table wines account for about 84 percent of U.S. production. Cooler wines (a blend of fruit juices, carbonated water, and sugar, with an alcohol base of wine, distilled spirits, or malt. This category also includes coolers, wine coolers and certain flavored wines.) hold around 4 percent. Sparkling wines represent around 2 percent. Special natural wine (A product produced from a base of natural wine to which natural flavorings are added) has 5 percent share. Dessert wines reach of 4%. Vermouth (is a type of aperitif wine that is made from grape juice and has the taste, aroma, and characteristics generally attributed to vermouth) is 1 percent and imported specialty wines account for less than 1 percent only^{viii}.

Throughout the past decade, the table wines (defined as wine under 14 percent alcohol), including varietals (A wine made wholly or predominantly from a single grape variety identified on the label, like Cabernet Sauvignon, Chardonnay, Pinot Noir, Zinfandel.), have grown to nearly 72%, 84% and 84% in 1991, 1993, and 1994 respectively. Grape table wine has been the dominant wine sold in the U.S. It accounted for 83 percent of the total wine market in 1995 which represents a market share gain of

Figure 1

The past decade consumption and production--Million Gallon



1.7 percentage points over the previous year. It accounted for 88 percent of the total wine market in 1996 and 1997. It sounds like a trend that more and more people are beginning to drink table wines (See table 5).

Table 5 WINE SALES IN THE U.S.---1991 to 1997

(Wines from California, Other States and Foreign Products--in millions of gallons)

Category Year	Table Wine	Desert Wine	Champagne /Sparkling	Total Vol.	Total Retail Value
Actual 1997	462	31	30	523	\$16.1Billion
Actual 1996	443	32	30	505	\$14.3Billion
Actual 1995	408	31	30	469	\$12.2Billion
Actual 1994	395	33	31	459	\$11.5Billion
Actual 1993	381	35	33	449	\$11.0Billion
Actual 1992	405	37	33	476	\$11.4Billion
Actual 1991	394	39	33	466	\$10.9Billion

Source: Volume--Wine Institute, Department of Commerce, Gomberg Fredrikson & Associates.

In 1991, wine cooler sales accounted for nearly 61 million-gallons. This was a 30 percent decrease from 1990 and indicative of the downward spiral of this category. However, that was not the end, at 19 million gallons, 1995 wine cooler sales fell below their year-earlier level of 23 million gallons; wine coolers represented 4 percent of the wine market last year, a further decline from the 13 percent share coolers held in 1991. Since a

federal excise tax change in 1991 placed wine coolers at a price disadvantage vis-à-vis malt-based coolers, malt-based cooler volume has grown at the expense of wine coolers. That was the primary reason of the decline of market share. This refreshment wine category peaked in popularity in 1987 at 122 million gallons. In the early of 1990s, the Seagram Company dominated this category with 46 percent market share, followed closely by E. & J. Gallo Wineries' Bartles & James brand. Some industry insiders believe that this decline will soon level off and that category will maintain an established volume^{ix}, according to *Beverage Dynamics*. New trends in low-alcohol and low-calories may help to create stability in this category (refers to wine cooler).

Sales of champagne and sparkling wines have been hurt by price-conscious consumers. Sales in the United States of domestic and imported French champagne were down in 1991 as were all imported sparkling wines, off a combined 16.6 percent. The primary reason was people are price-conscious. Although economy has been changing better and champagne still commands a superior image and maintains the quality and complexity of the best sparkling wines, its price has reached a critical point. That has caused some loyal consumers to take a second look at less expensive alternatives, like table wines^x.

In general, champagne and sparkling wines have been traditionally chosen to be the indispensable option in almost every event, such as parties, banquets and ceremonies. There are more concerns about the event itself, but which kind wine should be used, so in turn, more and more people would rather use relatively cheap table wines instead of the more expensive champagne and sparkling wines. Unless the economy keeps running well and people have enough money and time to enjoy the "pa" -- the sparkling sound in the

event, it will be hard to see that people enjoy drinking expensive champagne and sparkling wines just for common or regular events. In other words, there is a trend that the expensive champagne and sparkling wines will have a less and less market share than they did before.

The dessert wine share of the U.S. market has decreased dramatically over the past three decades, according to the Wine Institute. In the mid-1950s, dessert wine accounted for over 60 percent of the U.S. wine market. In 1986, it was 6 percent, then 5 percent in 1991, and 4 percent in 1995. This declining trend seems to stop in recent years, and it has kept at 4 percent of the U.S. wine market for 4 years since 1995. In addition to changing tastes, dessert wines are not sold because the consumers have little knowledge about these products, according to Berger in *Beverage Dynamics*^{xi}. Berger wrote that "the least understood fine wine in the country is sherry, Spain's contribution to the first and last aspects of a great meal. The old view has been a little old lady sipping sherry at afternoon tea or of Aunt Gertrude taking a nip... before bedtime. This is far from the best way the product ought to be served."

In addition to these changes, total table wine consumption declined around 4.8 percent to the bottom of 381 million gallons in 1993. Then it rose up to 408 million gallons in 1994. The imported wines (including all kinds of wine primarily from France, Italy and Australia) seemed to be worse than the domestic table wines. They dropped 3.5 percent between 1991 and 1994. However, in contrast, one strong area for the wine industry has been the success of California varietals. A five- percent increase in domestic table wine growth in 1991 was fueled by the continued popularity of these premium wines (those brands of wine that are top quality, have brand recognition, are positioned

well in the customer's mind, and generally command the highest prices. Also known premium pour, top shelf) Chardonnay, Merlot, cabernet sauvignon and zinfandel advanced solidly since then and there is no any sign that they will stop even now (especially after 1995, premium wines have become more and more popular and price are also soaring with strong economy).

In last three years, the U.S. wine market seems to show a new and recovering figure. The consumption begins to increase steadily (see table 5,6). The total sales of wine has

Table 6 **Wine Consumption in the U. S.**

	1998	1997	1996	1995
Total Wine per Capita(gallon)	1.96	1.95	1.9	1.79
Total Wine Gallons(million)	531	523	505	469
Total Table Wine Gallons(million)	462	462	443	408

Source: Wine institute/Gombery, Fredrikson & Associates

increased 7 percent, 25 percent, and 41 percent in 1995, 1996, and 1997 compared with the sales peak of 11.7 billion in 1990. The total retail value of 1997 wine sales in the country from all sources, including California, other states and foreign producers (France, Italy, Chile, Australia, and Argentina), reached an all-time high of \$16.1 billion, according to Wine Institute research. In volume terms, wine sales in the U.S. surged to an estimated 523 million gallons, a four-percent increase from the previous year's figures (1996). This growth continues a four-year rebound of wine sales in the country. Of the total 523 million gallons sold in the U.S., California wine accounted for 372 million gallons, or nearly three out of every four bottles sold in the country^{xii}. Other states' (New York, Florida, Texas, and Illinois) volume sales in the U.S. totaled 40 million gallons in 1997.

The new surge has made the American vintners very exciting. In the meantime, it also brings the harder competition. In order to keep and protect their share in the U.S. market, Nearly 70 percent of wineries^{xiii}, which as a group were responsible for 80 percent of U.S. varietal wine production in 1996, said they have planned to expand their fermentation capacity through out the end of this century on average of 33 percent. On the other hand, some American vintners augmented their inventories by importing foreign bulk wine (primarily from Italy, Spain, Chile, South Africa) and bottling it in the U.S., which amounted to 13 million gallons sold in 1997. Foreign wine imported in bottles accounted for 98 million gallons sold in the U.S. Foreign bulk imports are likely to decline sharply (with the El Nino effect on the whether, grape production drooped down in Europe and south America, resulted in a sharp decrease of grape crushing) this coming year as the record-high 1997 winegrape crush has replenished California wine inventories. The crush of 2.9 million tons of winegrapes is a 33 percent increase (benefits from a good whether and big harvest on wine grape) over 1996 tonnage. The combined crush of the five leading premium winegrape varieties--Chardonnay, Cabernet Sauvignon, Merlot, Zinfandel and Sauvignon Blanc-- jumped by a remarkable 54 percent over 1996.

B. A Driver of the Market Growth

According to the top industry consultants Gomberg, Fredrikson & Associates (which is based in San Francisco), the positive news about moderate wine consumption and health (reported and released by CBS in 1996) is one of several reasons for the strong consumer demand. Along with a strong economy and changing consumer attitudes

towards wine^{xiv}, high quality California vintages and booming export growth are also fueling sales.

Sales in the U.S. of red table wines from all sources have grown 151 percent from 23.2 million cases in 1991 to 58.2 million cases in 1997. This is perhaps due to earlier media coverage of some scientific studies featuring red wine that associated favorable health effects (decrease of the risk for heart disease) with moderate consumption of wine and other alcoholic beverages. White table wines still dominated sales by color (relates to the hue and density of wine pigments) with 77.1 million cases sold in the U.S. in 1997, up 12 percent since 1991, and blush table wines (very light pink wines, generally made from brief fermentation of red must just prior to pressing) accounted for 53.7 million cases in 1997, up 13 percent over the same six-year period.

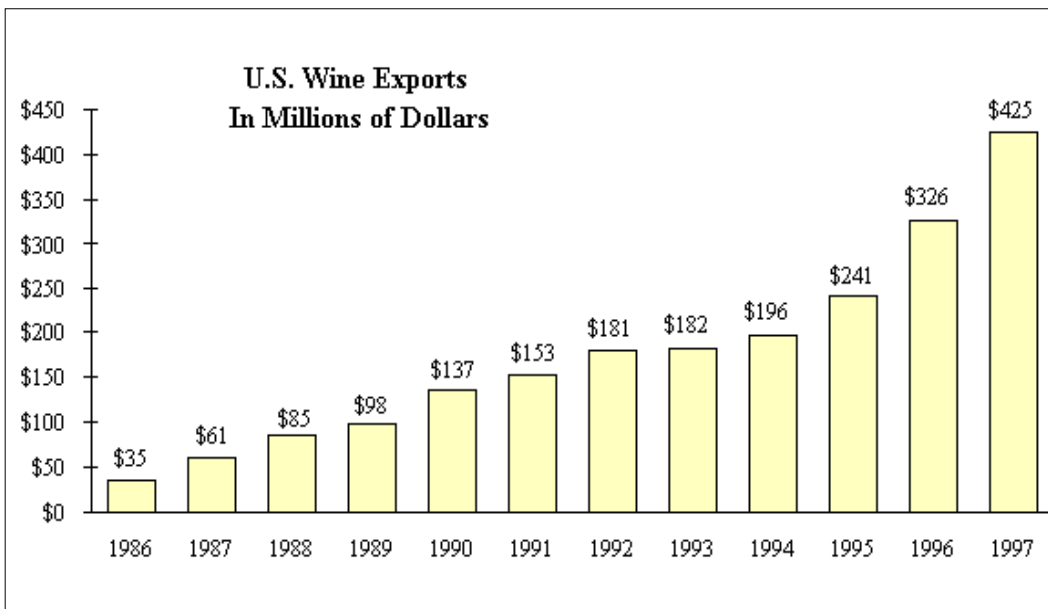
Despite scarce domestic inventories and stiff international trade barriers, most California vintners continued to supply their hard-won export customers. Preliminary numbers for U.S. wine export sales for 1997 are estimated at \$425 million and 60 million gallons, a 30 percent and 26 percent jump respectively over 1996. The United Kingdom remained the largest export market with sales jumping 33 percent to \$108 million, and Canada accounted for \$79 million, up nine percent. The Asian financial crisis did not hamper gains for Japan, the third leading market, up 26 percent to \$40 million. High growth was also posted for Taiwan, up 321 percent to \$22 million, and Hong Kong, up 127 percent to \$13 million. (See table 7 and figure 2)

It is not just California wine that is enjoying the boom. Bulk and packaged imported wines increased also by 28 percent last year, accounting for 18 percent of all

Table 7 U.S. WINE EXPORTS 1986-1997

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Volume (Millions of gallons)	60	47.5	38.8	35.2	34.9	38.9	33.1	29	21.9	16.9	11.9	7.3
Value (Millions of dollars)	\$425	\$326	\$241	\$196	\$182	\$181	\$153	\$137	\$98	\$85	\$61	\$35

Source: Wine Institute/ IV International from U.S. Dept. of Commerce^{xv}

Figure 2

Source: Wine Institute/ IV International from U.S. Dept. of Commerce^{xvi}

wine sales, up from 15 percent the prior year, according to the Wine Institute. Wine shipments from Italy and France, the top two exporters to the U.S., were up 13 percent and 31 percent, respectively. Wine from “New World” markets such as Australia and Chile also recorded gains. In fact, the long-time top selling imported wine, like Riunite (costs about \$39.99 per 750 ml bottle for the product of 1995) from Italy is being taken over by fast-growing No. 2 import Concha y Toro (cost about \$13.59 per 750 ml bottle for the 1995 product) from Chile. This brand of wine depletions are reported by Impact Databank as having soared 68 percent last year to 1.7 million cases^{xvii}. On the observation

of the market expanding, it is obvious that the fastest growing segment of the imported wine market is the bulk category (13 million gallon were sold in 1997). Because of the short supply of domestic varietal wines, many wineries have begun blending in bulk wine from the countries such as Chile and France with domestic wine. This is supposed to be the main reason why imported wines from France and Chile, even Australia increased so much. So that will not be good news to the domestic wineries (especially all California wine wineries whose production account for around 70 percent of total U.S. domestic production^{xviii}). (See table 8)

Table 8 Top 20 brands of Imported Table Wine (000 9-liter case)

	Brand	Origin	1994	1995	1996	95-96 change
1	Riunite	Italy	2,245	2,255	2,345	4.00%
2	Concha Toro	Chile	750	1,005	1,690	68.20%
3	Bolla	Italy	855	935	1,070	14.40%
4	Gorges Duboeuf	France	815	830	975	17.50%
5	Casarsa	Italy	415	432	935	115.00%
6	Marcus James	Spain	650	710	815	14.80%
7	Folonari	Italy	750	705	710	0.70%
8	Lindemans	Australia	235	400	710	77.50%
9	Barton & Guestier	France	460	550	690	25.50%
10	Cella	Italy	585	575	660	14.80%
11	Leonard Kreusch	Germany	490	475	500	5.30%
12	Boucheron	France	400	415	485	16.90%
13	Louis Jadot	France	420	450	475	5.60%
14	Walnut Crest	Chile	420	440	650	36.80%
15	Corvo	Italy	370	385	440	14.30%
16	Mouton-Cadet	France	375	370	435	17.60%
17	Citra	Italy	340	370	425	14.90%
18	Ruffino	Italy	360	370	395	6.80%
19	Barbella	Italy	320	330	380	15.20%
20	Black Opal	Australia	235	285	380	33.30%

C. Consumer Segmentation:

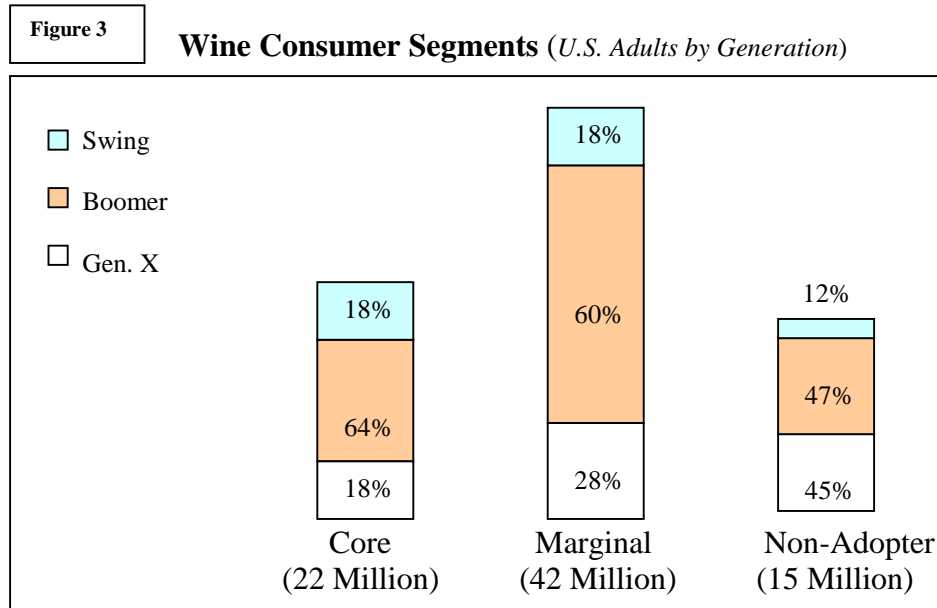
The consumption of table wine in the U.S. can be described on a chart by a low, flat line in the more than 50 years since the end of Prohibition, With one exception. From

1970 to 1982, table wine consumption by U.S. adults more than doubled, rising from 1.05 to 2.58 gallons per person. Many wine marketers fondly remember that period as the “wine boom “. Since 1982, adult per capita consumption of table wine has sagged, dipping below two gallons per person and rising again the past three years^{xix}.

Unlike European wine-producing countries (traditionally France, Italy, Germany, and Spain), U.S. wine consumption in the modern era is driven not by the culture, but by social trends^{xx}. And nearly all-social trends emanate from a core group-a peer group. In the case of above wine boom, that group was the first wave of baby boomers, who matured during the 1970s, and drove the entire consumer market with their unique set of tastes and lifestyle choices-among them table wine. Thus the “three martini lunch” of the 1950s gave way in the ’70s to the more youthful phrase, “I’ll just have a glass of white wine,” which became a boomer mantra (so called because that was becoming a new life style or changed drinking habit).

Today, the first wave of baby boomers largely build up the core wine consumer group, which today drives the premium varietal market. These consumers are now in their 40s and very early 50s. Fully 63 percent of marginal wine drinkers (who drink wine less often than weekly) are under the age of 40. This is a group of some 27 million adults. But no matter how important this under-40 audience is, the generation X (Members of Generation X were born between 1965 and 1976. The Swing generation are those born between 1933 and 1945. Baby boomers are those born between 1946 and 1964. U.S. birthrates soared in 1946, with the end of the war, and did not sink below 4 million per year until 1965.)^{xxi} inevitably is raised. (Figure 3)

Looking more closely at the two generations, we note that there are 77.6 million baby boomers, comprising 42 percent of the adult population, and 44.6 million members of Generation X, comprising 20 percent of the adult population (1995 census figures). In fact, a real truth which lays before the wine industry



is that the second wave of the baby boom (born between 1955-1964) comprises the greatest segment of the marginal wine consumer population. Younger boomers have yet to embrace wine to the extent of their older brothers and sisters. This is an enormous consumer group. Generation X is also an important component of the opportunity for the wine industry to expand its consumer base, and they comprise 26 percent of the Wine Market (the 37 million marginal wine consumers, and low-end core consumers who like wine but consume it infrequently). They are going to be the important foundation to build the future wine market^{xxii}.

2. Future Situation

The American wine industry is small and relatively young compared with other traditional winemaking countries, like Italy, France, and Germany. Its tumultuous history at the hands of government, temperance advocates and Mother Nature have not made it very appealing to the so-called investors, businessperson and consumers^{xiii}. But it is about to change. Those who have been in the wine business a while have been watching it happen. It began with a crunch in distribution that is now winding its way through every channel of the market. The increased presence of the wine industry on Wall Street (there are 14 American wine stocks and 13 international wine stocks traded in U.S. stock market) increased scrutiny from investors have traded wine companies looking to the world of branded goods for tips on how to thrive. A wave of consolidation on both distribution and retail level seems to be being created to affect the future wine industry. Meanwhile, on the technology level, even society level, there are also some obvious changes that will be affecting this industry. For instance, with the increased use of cellar machinery in California, a trend to make wine of greatest good for the greatest number is fast becoming one strategy for reaching the masses. Following shows some potential factors, which are going to shift the wine market demands.

A. Technological factors.

Today, wineries pay incredible attention to technology. It is not only for the wine production, quality, but also for the wine marketing. Most winemakers readily

acknowledge that great wine comes from great grapes. The fruit is 65 to 70 percent responsible for wine quality^{xxiv}. Among these popular technologies, the high-density vineyard, rotary fermenter, and tank press. The high-density vineyard allows to plant 2,100 to 2,800 vine per acre now. Compared with traditional planting, only 750 vines were planted in per acre. This productive tech will give the winemakers more potential and chances to achieve high production. In turn, this grape growing innovation have not come cheap. About 20 years ago, planting a vineyard cost an average of \$4,000 an acre compared to figures upward of \$25,000 today, the average price of developing an acre has soared by some 600 percent. This might be the reason why the wine price has a small increase. Price is still a big concern for most consumers even on today, when the economy is so strong. In order to keep the market share and survive in the tough competition today. Wine makers are trying to advocate the implementation of more new technologies (including rotary fermentation technology, Vineyard density technology, tanks or membrane presses technology and automated processing technology) to cut the cost further. So with more and more new technologies^{xxv}, the wine quality is going to be improved much without a high increase in the price.

B. Economic Factors

The wine industry has been always a small player in United States' economy since its landing in North America two hundred years ago. Even just back 10 years, when the grape industry was not in such good shape, it was almost impossible to get financing. The banks were very reluctant to lend. Then in the early 1990s, the lending situation shifted. A crop of well-publicized studies touting the health benefits of moderate wine consumption and a solid economy uncorked booming wine sales. Increased interest fed

record-level production and soaring prices for wine grapes. Revenues for California wineries climbed to \$5.2 billion in 1996, a 13 percent increase from the year before. In the meantime, as the economy thrived, the seasonal winery worker wages were also increased 5 to 8 percent in the North Coast region^{xxvi}. However, this increased cost did not seem to bring any affect to the sales of the premium wines and most expensive wines. Despite a substantial increase in statewide plantings and rumors of a wine glut on the horizon, the most highly reputed Napa valley producers have been pumping up prices at rates 20 to 40 percent per years so that many products have doubled or even tripled their release prices for top of the line offerings (in 1995, Al Brounstein, proprietor of Napa Valley's ultra-premium Diamond Creek Vineyard, became the first to price a wine at \$100 on release. Three years later, Brounstein released his coveted Cabernet Sauvignons for \$300 a bottle.) . Obviously, those increased costs, as well as replanting, adhering to increased regulation and boosting advertising, have been absorbed in the prices of wineries' best-selling wines. The bull market and proof, time and again, that people will pay top dollars and beyond for wines of distinction, have fueled the drive. Without a doubt, a lot of people have a lot of expendable income these days. That is the main reason to speed the sales up to a new record, especially the premium wines and expensive wines sales. According to an annual attendee survey result (presented by Robert Smiley, dean of the University of California at Davis School of Management, at the 1998 Wine Industry Financial Symposium held in Napa, Calif., in October 1998), the price and value combination is viewed as the most important factor in convincing a wine seller to carry and to promote a wine (see figure 4 & 5). Other factors considered varietal popularity, supplier relationships, market efforts, press, personal appraisal and cache of the

producer^{xxvii}. Affordable wine pricing, while still viewed as important, was seen as a less significant factor in building future sales.

Figure 4

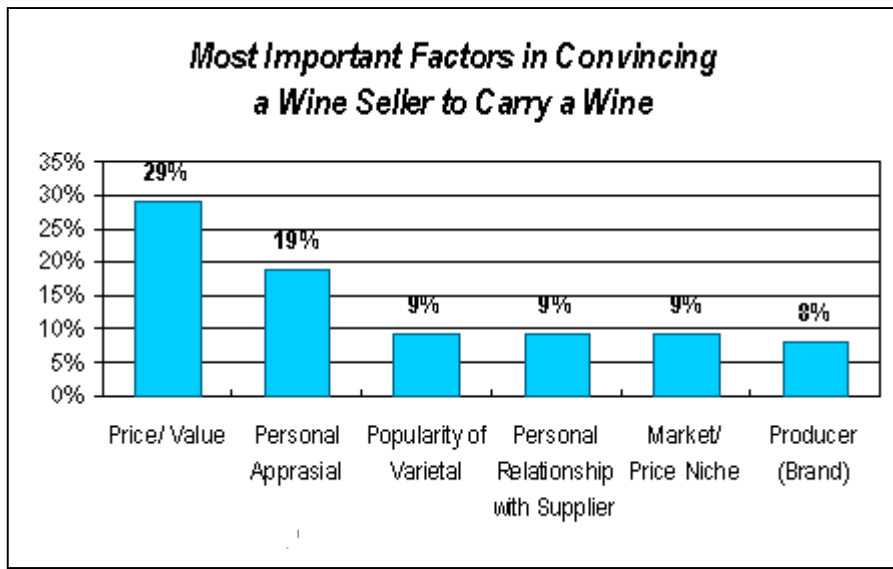
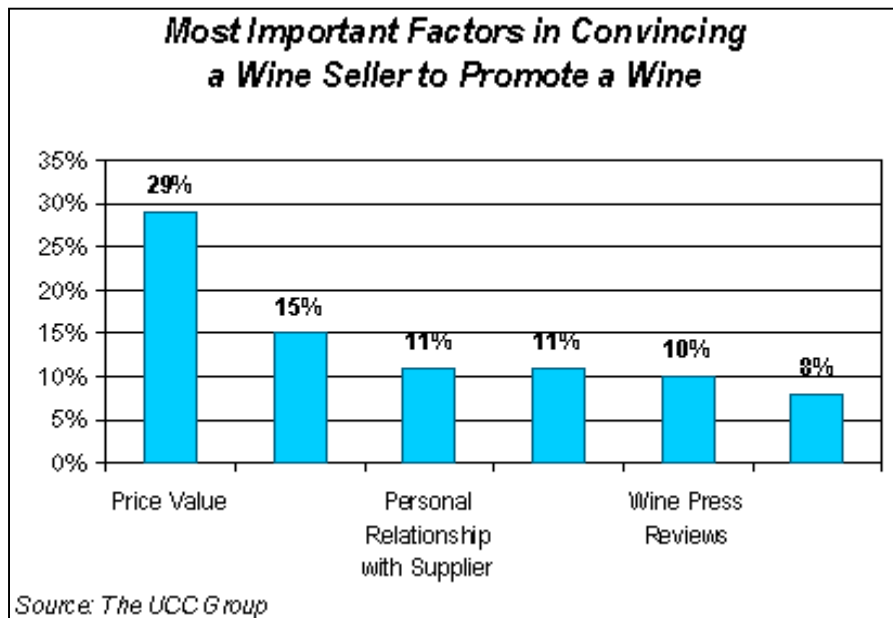


Figure 5



C. Socio-Cultural Factors

Since 1990s, the winemakers and wine marketers have been enjoying continued growth of wine consumption and sales. Especially after Morely Safer's 60 minutes television segment on the health benefits connected to moderate red wine consumption was rebroadcast in 1995, many small wineries frequently ran out of their inventory. So they increased the prices, but the industry was still content to sell more wine (the red varietals accounted most of them) to fad-crazed, health-conscious Americans. According to an annual industry survey by the Wine Industry Financial Symposium, nearly 70 percent of the surveyed wineries, which as a group were responsible for 80 percent of U.S. varietal wine production, said they planed to expand their tank. They believe the current sales boom will continue for 5-7 years, up from the last year's estimate of 4-5 years^{xxviii}. Here, the biggest concern for the wine marketers and makers is that How long the sales boom will last. As mentioned preciously, unlike European wine-producing countries, U.S. wine consumption in the modern era is driven not by the culture (like European does), but by social trends. So it is a constant challenge that people in the wine industry face everyday: how do we attract the average American to wine? Not the lawyer relaxing after a difficult trial, not the couple bringing a bottle of wine to a dinner party. How do we bring wine together with pizza and a movie, chips and a football game? How do we replace the six-pack with a bottle of Merlot^{xxix}? This is the most important mission of the every winemaker and wine marketer to recreate the American wine-drinking culture.

On the other hand, the rapid development and expansion of MADD (Mother Against Drunk Driving, a organization which was born in 1980) have resulted in an increase

percentage of individuals who never drive after drink and alcohol consumption continues to decline and concern about drunk driving has reached peak levels^{xxx}. At this point, the influence of MADD somehow offset the recent increase of the wine surge. In a long term, those winemakers are supposed to work on some campaign that let the people and MADD know the difference between moderated drinking and drunk driving.

D. Legal/Governmental Factors

Ten years after slapping health warnings on all alcoholic beverage containers, federal regulators have decided to allow vintners to attach new labels promoting the health benefits of wine. The decision by the Bureau of Alcohol, Tobacco and Firearms -- has been made public in January 1999-- was a big victory for California winemakers, who have long sought a way to counterbalance the warning labels and distance themselves from products such as cigarettes, which are coming under increased regulations^{xxxi}. Under the new regulations, winemakers will now be able to add one of the following labels: "To learn the health effects of wine consumption, send for the federal government's Dietary Guidelines for Americans," or "The proud people who made this wine encourage you to consult your family doctor about the health effects of wine consumption." Obviously, the voluntary labels will have a negligible effect on people's drinking habits and wine market.

On the other hand, the minimum legal drinking age of 21 in the United States is commonly seen as a highly successful public health measure. All States now have age-21 laws^{xxxii}. As the main body of U.S. adults wine consumer, there are about 80 million adults are older than 23 years (see **figure 3**). So, the minimum legal drinking age law just has very minor affects on the wine business.

According to an Forbes magazine's estimate that in 1996, direct-to-consumer wine sales totaled over \$1 billion, about 7 percent of the total \$13.8 billion US wine market^{xxxiii}. Currently, 28 states prohibit direct shipping entirely, while 22 states and Washington, DC, imposes direct-ship regulations of varied rigor. Each state regulates alcohol shipments differently. Some states, such as Utah, prohibit direct mail entirely. Others, like California, freely allow for direct mail between consenting states. The remaining states put restrictions on direct-mail shipping. In Louisiana, an individual customer can receive 60 bottles of wine a year.

3. Implications

According to the analysis above, by gender, wine consumption is almost even with 45.9 percent of drinkers being women, and 54.1 percent men. Age group consumption shows only 4.5 percent of the 21 to 24 age group are drinking wine. The numbers even off to around 20 percent from the mid-20s age group to age 55, then consumption drops back down to 13.1 percent. The largest consumer groups are "did not graduate from high school" with 38.2 percent, and "attended college, did not graduate" at 31 percent. College graduates drank only 8.2 percent of the wine consumed in the United States in 1997. By profession, drinkers varied, but the largest percentage, 31.4, were unemployed.

While the "never married" or "divorced" people who drink wine is around 17 percent, 65.2 percent of married people drink wine. 89.8 percent of wine drinkers are white, only 6.5 percent black, and 3.8 percent "other." By geographic region, drinkers are distributed evenly, all in the 20 percent to 30 percent range. The same was true of household income, with the exception of under \$15,000 at 7.3 percent^{xxxiv}.

From the figures we mentioned, health benefits, a strong economy and increased industry advertising are expected to continue to have a positive impact on wine sales over the next three years(during 1997 ~ 1999). The fact shows that more and more people begin to connect moderate wine drinking with health. The recently release (Bureau of Alcohol, Tobacco and Firearms agreed to allow health-related claims on the wine bottles on February, 15 1999) of regulations about labeling will surly encourage more consumers to continue drinking wine. In turn, this will probably cause other regulations to crack down the wine business to keep the balance, such as tightening the drink age rule. So learning and updating the new alcohol regulations will be very necessary to the wine business.

III. Competitors

Boosted by strong consumer demand for red wines and for most premium varietals, wine shipments and operation profits increased for most of the industry participants in 1997. The U.S. wine industry's sales totaled about \$15 billion in 1996, \$16.1 billion in 1997 and \$17.3 billion in 1998(estimated). As report of firm Impact Databank Review and Forecast by the research firm (publishes annual summary of US wine market including data on consumption, pricing, demographics, complete brand summary, advertising and projections)^{xxxv}, the top five U.S. wine marketers 1n 1996 accounted for 60% of wine category volume. They are E. &J. gallo winery, Canandaigua Brands Inc., the wine group, grand Metropolitan, and Sebastian Vineyards (See table 9). Among these top wineries, the leader E. &J. gallo winery accounted for 26% of unit case sales in 1996 (A case contains nine liters of wine). According to the Wine Spectator, one out of every three bottles of wine made in America is a Gallo product. The company

specializes in table wines. Canandaigua brands, the nation's second-largest wine producer, accounted for 16% of the industry's total. No. 3 producer the Wine Group, which accounted for 10% of the industry's shipments produced the nation's most popular wine, Frnazia^{xxxvi}.

Table 9 Top 5 Wine Marketers--1995*(In percent, rank by Retail Share)*

Company	Vol. Share	Retail Share
E. & J. Gallo Winery	26.2	15.7
Canadaigua Wine Co.	17.9	11.8
Heublein Inc.	3.9	5
Brown-Forman Beverages	2.6	4.2
The Wine Group	9.5	3.9

These larger wineries are concentrating on market share, both through volume growth and through product line extensions, with includes adding brands. Their goals are very obviously to leverage a large sales and marketing organization and to become more important to the consolidating distribution system and retail market. Toward this end, they will be expanding their marketing activities by adding marketing professionals from other successful industries, increase their advertising budgets—substantially in some cases, and by doing more merchandising and cross-promotion (See Table 10). In the meantime, the smaller wineries are taking a different approach. They are concentrating on improving and building customer relations with both wine consumers and specific trade accounts or types of trade accounts. They will be doing this with more relationship building (some personal selling would be proffered to apply), more specific distribution methods and goals and more sophisticated information technology, all with the objective of maximizing individual customer profitability^{xxxvii}.

So with this analysis, some wine industry and marketing analysts consider that in order to survive in this competitive and profitable wine market, wine marketers and

makers must move more toward creating more customers, making better wines with better values and making wine more visible, more available and more approachable. To accomplish this, they need more market research to better understand and reach the consumer, to better understand the potential market for wine, and to develop better programs to appeal to those markets.

Table 10 Advertising Expenditures for 10 Top-Spending Brands in 1996 (\$000)

	Brand	Marketing Company	1995	1996
1	Gossamer Bay	E. & J. Gallo Winery	N/V	9,432.10
2	turning Leaf	E. & J. Gallo Winery	N/V	9,054.10
3	Freixenet	Freixenet USA	3,400.90	4,580.80
4	Talus	Sebastiani Vineyards	N/V	4,334.50
5	Korbel	brown-Forman Beverage	4,758.60	4,225.40
6	Ballatore	E. & J. Gallo Winery	4,380.20	3,442.20
7	Meridan Wine	Wine World Estates	3,297.50	2,682.40
8	Tott's	E. & J. Gallo Winery	2,750.80	2,542.00
9	Sutter Home	Sutter home Winery	6,635.80	2,324.70
10	Robert Mondavi	Robert Mondavi	1,484.30	2,107.80

IV. Government Public

1. Current Situation

No one denies that Feb. 5, 1999-Friday was the most wonderful day for all the wine business in United States. The Government announced that it would allow the wine industry to use bottle labels that mention the "health effects of wine consumption" was released by Bureau of Alcohol, Tobacco and Firearms^{xxxviii}. According to Elisabeth Holmgren, the institute's director of research and education: It is essential that the consumer get more knowledge about our product, wine-makers were confident that responsible people who study the guidelines would conclude that the benefits of wine -- in moderation -- outweighed any harm.

On the contrary, in 1997, legislation to tighten restrictions on direct shipping was introduced in 13 states; Florida, Georgia, and Kentucky have made it a felony for the seller. At the same time, a law passed in Louisiana-the "Louisiana Compromise"-allows limited direct shipping. For 1998, free-trade opponents are backing even more punitive legislation and sting operations while supporters plan to push for Louisiana compromises

in other states^{xxxix}. As both sides step up lobbying efforts, a Supreme Court showdown seems inevitable.

Those who oppose direct shipping-notably a group of powerful associations including the Wine and Spirits Wholesalers of America, the National Alcoholic Beverage Control Association (made up of state regulators), and Americans for Responsible Alcohol Access (a public interest group) -argue that the three-tier system provides the only mechanism for enforcing regulations and collecting taxes. On the other side are groups like the Wine Institute and the Coalition for Free Trade in Licensed Beverages, both of which want the states to open up distribution channels^{xl}.

In terms of health and safety, the public health groups, such as American Public Health Association, U.S. Public Health Service and even MADD (Mother Against Drunk Driving) protested that such a move would undermine years of patient efforts to raise awareness of alcohol abuse and drunk driving, one of the nation's biggest health problems^{xli}. But they could not match the wine industry's political and financial resources, and so the vintners' narrow commercial interests won out. In the end, perhaps a limited number of moderate drinkers will benefit, but for the general public the risks -- in terms of increased alcoholism, drunk driving and birth defects -- seem far greater.

2. Future Situation

The Federal Government gave the wine industry permission in this February to use bottle labels that encourage consumers to learn about the benefits of wine, and the door seemed open for the makers of beer and hard liquor to seek the same privilege. But the sources said the ATF will also announce new regulations to crack down on the

packaging of alcoholic drinks designed for underage drinkers -- such as spiked Popsicles, gelatin and sweet drinks sold in juice boxes -- and work to develop legislation to further discourage underage drinkers. This will also frustrate wine industry in some way. It can be considered an offset affect to the wine sales. In the meantime, in order to stop teenagers from buying booze in cyberspace, a bill, so called "21st Amendment Enforcement Act" breezed through the House of Representatives on August 3 after passing the Senate on a voice vote. Without doubt, this bill will definitely crack down internet wine sales. At this point, the biggest shock is in California. Facing this challenge, the two powerful California industries-Computer and Wine have been pushed into into an unusual alliance. A fight is just starting^{xlii}. No matter who win the fight, the internet wine business will be strongly affected by the result.

3. Implications.

Although some new changes have come or are coming, for a specific wine business, a set of more efficient marketing tool has to be developed in this moment. As the tighten regulations against the wine direct shipping, the wine selling on the internet will not be recommended to develop. Extending a loyal consumer group will be the most important. Also the accompanied education actions should be provided to the consumers so that they can learn more about wine and enjoy the wine drinking.

Part II An Analysis Of The World Wine Industry

I. Consumers

1. Current Situation

Wine has been produced for thousands of years. The wine industry is one of the oldest in the world and one of the most unique and interesting industries. Benjamin Franklin referred to wine as "constant proof that God loves us and loves to see us happy."

The Greek philosopher Aeschylus penned in 500 BC that "Bronze is the mirror of the form; wine, of the heart." Today, there are approximately 20 million acres (around 7814 hectares, which is a unit for measuring an area of land, equal to 10,000 square meter or 2.471 acres) of vineyards around the world, producing an annual supply of over 25,000 million bottles of wine. (See table 11)

Table 11 World Vineyard Hectares/Acreage by Country (000) hectares/acres

Country Rank	1997		1996		1995		1994	
	hectares	acres	hectares	acres	hectares	acres	hectares	acres
1 Spain	1155	2854	1,224	3,025	1,224	3,025	1,235	3,052
2 Italy	914	2258	922	2,278	927	2,291	956	2,362
3 France	914	2258	917	2,266	927	2,291	933	2,305
4 Turkey	602	1488	567	1,401	565	1,396	576	1,401
5 United States	315	778	311	768	308	761	308	761
6 Portugal	270	667	259	640	261	645	267	660
7 Romania	260	642	256	633	253	625	252	623
8 Iran	254	628	252	623	245	605	250	618
9 Argentina	209	516	211	521	210	519	210	519
10 China	188	465	177	437	164	405	150	376
World Total	7814	19308	7824	19272	7893	19502	7900	19524

Source: Wine Institute^{xliii} based on data from the Office International de la Vigne et du Vin (O.I.V.). Numbers reflect totals for wine, raisin and table varieties.

That is enough wine to give every person in the world four or five bottles per year.

However, despite the current size and long history of the wine industry, commercial wine production is concentrated in relatively few areas of the world. Europe and the Mediterranean region is where winemaking is believed to have already started with a long history and solid reputation, and today, Europe still accounts for the majority of the global wine production and consumption. Nevertheless, some areas such as California of United States, Argentina, South Africa, Australia, and Chile are becoming increasingly important in the globe wine market^{xliv}.

With a long winemaking history, which is about 2000 thousand years long, the European Union produces 60 percent of world's wine and dominates the market both in quality and quantity. Among the three great wine-producing countries in Europe, France is the leader in quality, Italy in volume, and Spain in the amount of land given over to vine growing. For European, wine has always been more important for its reaffirmation of national esprit, its nourishment of a good meal, and its reviving of the soul than it has for the jobs and profits it generates. Wine has been becoming a very important part in their life. However, with the rapid emergence of exceptional producers in the US, South America, Australia, and South Africa, a New World wine making circle and challenge are coming to against those traditional European winemaking groups---Old World^{xlv}. During 1994~1998, the total world production has reached to 6,895,299 gallons, or 259,645 hectoliters (a metric unit of capacity equal to 26.4 gallons or 100 liters), which is a 4.1% increase (See table 12) For this increase, France, Italy and Germany all have a negative excess of production, -1.9% happened in France, -14.2% went to Italy! and -16.6% belonged to Germany. In contrary, United States, Chile, and Australia had a big jump with 35%, 43.8% and 5.1% respectively. These allow the countries of New World begin to play more and more important roles. In another word, they will influent globe wine market trend by their own changes, and also bring tough competition to the old winemaking circle. With this pressure and a general decline in the volume of wine drunk by consumers in major markets, European producers have been pressed to improve quality and launch aggressive marketing campaigns to save their businesses during the recession. In this competitive field, most old-world winemaking countries have taken the actions to

consolidate their dominations. With the long and traditional wine history, they have more and less dominant source to develop their winemaking and winemarketing.

Table 12 World wine Production by country (000) Hectoliters and Gallons

Country rank	1997		1996		1995		1994	
	Hectoliters	Gallons	Hectoliters	Gallons	Hectoliters	Gallons	Hectoliters	Gallons
1 France	53,612	1,416,323	59,650	1,575,834	55,610	1,469,105	54,640	1,443,480
2 Italy	50,847	1,343,276	58,773	1,552,665	55,702	1,471,535	59,276	1,565,953
3 Spain	33,887	895,227	32,675	863,208	20,876	551,502	20,995	554,646
4 United states	20,223	534,247	17,415	460,062	16,543	437,043	14,994	396,109
5 Argentina	13,500	356,243	12,681	335,007	16,443	434,391	18,173	480,094
6 South Africa	8,702	229,889	10,000	264,180	9,660	255,198	9,120	240,932
7 Germany	8,495	224,421	8,300	219,269	11,050	291,919	10,180	268,935
8 Romania	6,688	176,684	7,663	202,441	6,702	117,529	5,370	141,865
9 Australia	6,174	163,105	6,784	179,220	5,028	132,830	5,874	155,179
10 Portugal	5,727	151,296	9,529	251,737	7,225	191,663	6,521	172,272
World Total	207,855	5,490,711	223,470	5,903,623	204,839	5,352,715	205,143	5,419,465

Source: Wine Institute based on data from the Office International de la Vigne et du Vin (O.I.V.). Total may not convert exactly from gallons to hectoliters and vice versa because of rounding.

Compared with Old World wine producers, the New World producers have encouraged more people to drink wine. They see it as a new, fun product. It is no longer a highbrow thing; the image of someone sitting in an armchair in his library deciding which bottle to drink from his cellar is disappearing, part of demystifying wine has been making the labels easier to understand. Instead of the European system of labeling by region and producer, New World wines are labeled by type-Chardonnay, Sauvignon Blanc, Merlot and so on. It makes it easier for consumers to remember what kinds of wine they like. The New World wine makers, particularly the Australians, have capitalized, too, on their national identity when marketing their wares. People buy into that image when they buy the product. These countries are very exciting to see that they are considered as havens of the good life, with Mediterranean climates and great food. This is almost the primary

driver to the wine development and improvement in those countries. Probably, the winemaking structure helps the New World winemakers on turning wine into a lifestyle product to make it easier to be accepted by the consumers, because their industries are concentrated in a few large companies, unlike Europe, there are nearly 250,000 producers in Europe. But in Australia, four companies (Southcorp, BRL Hardy, Orlando Wyndham, and Mildara Blass) produce 80 percent of wine^{xlvi}.

Fortunately, European wine-makers have not taken the onslaught from the New World lying down. France and Spain are fighting back. Both are producing wines that are much more appealing now. The south of France is becoming the New World of the Old World. They have latched on to varietal labeling and easy-to-drink styles. More importantly, Old World grape growers and wine makers are more open to developing their own innovations as well as importing ideas from outside^{xlvi}.

Wine consumption in old-world wine-producing countries has always been substantially higher than in any other New-World wine producing countries. The history of wine in Europe and its acceptance as a beverage for daily use have resulted in a set of unwritten laws about when and how to drink wine. It is more or less assumed that all family members will drink wine, sooner or later. These typical and traditional wine cultures make the wine consumption in old-world winemaking countries dominant in the whole world. Among the winemaking countries, Italy dominates at the total consumption 941,088,000 gallons in 1996. Followed by 919,214,000 gallons of France and 505,000,000 gallons of United States at second and third^{xlvi}. But in term of the consumption by capita, there is another different figure for it. France is the leader of wine consumption per capita at 15.85 gallons; Italy follows closely at 15.68 and Portugal ranks

third at 15.42 gallon. Compared with these top three countries, other important and primary winemaking countries are ranked behind. Spain, 9.96 gallon at 8th place. Germany, 6.06 gallon at 15th. Australia, 4.78 gallon at 18th. United States, 1.92 gallon at 30th. (See tables 12 and 13)

Table 13 World Wine Consumption by Country (000) hectoliters and gallons

Country rank	1997		1996		1995		1994	
	hectoliters	gallons	hectoliters	gallons	hectoliters	gallons	hectoliters	gallons
1. France	34,941	923,097	34,795	919,214	36,515	964,653	36,663	968,563
2. Italy	33,820	893,457	35,623	941,088	35,623	941,008	33,025	872,454
3. U.S.A.	19,835	524,000	19,116	505,000	17,753	469,000	17,375	459,000
4. Germany	18,580	490,846	18,660	429,920	18,006	475,683	18,196	480,702
5. Spain	14,528	383,810	14,750	389,666	15,000	396,270	15,336	405,146
6. Argentina	13,505	356,775	13,551	357,990	13,888	366,893	14,407	380,604
7. UK	8,157	215,492	7,243	191,346	7,392	195,282	6,732	177,846
8. Romania	5,889	155,576	7,252	191,583	6,616	174,781	5,041	133,173
9. Russia	5,900	155,866	12,500	330,225	12,500	330,225	11,500	303,807
10. Portugal	5,600	147,947	5,800	153,224	5,695	150,451	5,762	152,221
World Total	222,568	5,879,809	220,172	5,816,516	221,068	5,840,172	N/A	N/A

Source: Wine Institute based on data from the Office International de la Vigne et du Vin (O.I.V.) and Gomberg, Fredrickson & Associates

2. Future Situation

Wineries can expect to sell less volume worldwide through the end of century even as sales value grows, mainly because of a global switch to less but better wines, according to a new report on the global wine marketing by Euro-monitor Consultancy of Britain. Euro-monitor predicted wine volume would drop 6.4 percent, while revenues should grow 12.2 percent. In the largest market in the world, Europe, volume and sales will do

poorest, the report said. The opposite will be true for volume in the Pacific, Latin America and Eastern Europe^{xlix}.

Although there is a decrease on consumption and sales compared with 1991 and 1997, there are still some good news about global consumption trends is consumption has moved from a base of only regular consumers to a base of regular and many more occasional consumers. Consumers are better informed. They are also consuming better, searching out quality products. More and more, women are the decision-makers. These trends will surely bring new push to the global wine market^l.

West Europe. A mature market where volume has dropped and value stabilized. Britain is the exception. It has seen tremendous growth since 1993 in terms of wine volume, 27 percent, and value, 40 percent, because of its improving economy. Europe, representing 60 percent of the world wine market, will see a slow drop in volume and flat value in wine sales over the next few years^{li}.

East Europe. Strengthening economies bode well for consumption of high-quality wine and make the region a strong market in the future. The interest in spending on quality beverages has already surfaced in Poland and Hungary, where economic development has been most visible^{lii}.

Asia. Wine is still new, especially in Indonesia and Thailand. Modernized markets such as Singapore and Hong Kong, and traditional producer the Philippines, are exceptions. Half the Asian wine market is in the Philippines. Wine has seen the strong growth of any alcoholic beverage since 1995. China is considered the country with the strongest potential market for an alcoholic beverage in the world, but it will take some years before China becomes a significant market^{liii}.

Latin America. This is the smallest of all markets for wine, but wine volume will slowly rise in the near term. Two Countries, Argentina and Chile, are significant as producers, consumers and exporters. Wine makes up about 19 percent of the volume of alcoholic beverages. The transaction in the black market makes the national sales data sketchy. Some nations, such as Colombia, may trade three-quarters of its alcoholic beverages on the black market^{liv}.

United States. Share of wine among all beverages here remains very weak, about 1 percent overall and the U.S. market remains dominated by breweries (beer values represent more than four times those of the wine market and double those of the spirits market). Wine's share of the alcoholic beverage market is about 7 percent, second to beer, 86 percent, but ahead of spirits, 5 percent. Although overall wine consumption declined 2 percent between 1991 and 1995, table wine volume increased 15 percent between 1991 and 1995, according to the report, on a 30 percent increase in value. Guilt over drinking, strongest in the U.S., has decreased because of health studies on moderate drinking and its benefits. To the end of the century, sales volume will remain stable. The growth in value will continue. Americans seen to be developing a stronger taste for regular mealtime use of quality wine as the "Anglo-Saxon mode of wine consumption (drinking wine mainly for pleasure) now seems to be giving ground to more Latin style of consumption (drinking wine with food)^{lv},"

3. Implications

The challenge for the wine industry is to attract more new consumers by delivering new taste of wine products. High quality wines have been making unexpected high profits in the most recently because the recovering economies and changing consumer

behavior in most countries, especially those developed nations. However, in some developing countries, like China, Thailand, Argentina, and South Africa, the strong demand on wine is driving the wine market energetically. On the other hand, the consumers are not only looking for enough amount of wine; they are also in the market for simplicity and products with strong identity. The consuming habit tends to be pickier and more concerned about quality or image. Some brought changes have been shown. For instance, the international market for wines in 1997 is 23.1 billion liters and \$83 billion dollars; this compares to wine volume of 26.47 billion liters and \$ 79 billion in 1996. There is a decrease of around 8 percent and 4 percent relatively. So responding with marketing that highlights brand and varietal identity will be a better way to deal with this shift^{lvi}.

II. Competition

1. Current Situation

FRANCE As the one of the most important winemaking nations, The 1996 French wine crop was of good quality and production increased by 6.4 percent over the 1995 level to reach 59.6 million hectoliters (MHL), which places France as the second largest world producing country after Italy. The 1996 crop benefited table wines versus Quality Wines produced in determined regions or areas (VQPRD) wines, and for all categories, red and rose wines were more advantageous than white wine. (VQPRD Wines: is Quality Wines Produced in Determined Regions or Areas. This is a European classification that combines French AOC wines and VDQS wines. Appellation of Origin-AOC wines: This designation refers to a country, an area, or a place, and certifies to the consumer the authenticity of the origin, the process of manufacturing, the specificity of the product, and

generally a minimum degree of alcohol. Quality Wines-VDQS: This designation is less strict than the AOC designation, but is more or less similar in regard to production areas, yield, etc. VDQS' wines are also subject to a sample tasting.)

In 1996, in order to response the competition from the New world and solidity the strong image of France wine, France set an export record for wine valued at FF 24.8 million (\$4.8 million), a 9.2 percent increase over 1995. Sales generated by the French wine industry contributed to over FF 22.2 million (\$4.3 million) to France's positive trade balance in 1996, representing 38 percent of the total French food industry surplus^{lvii}. In terms of wine importance, it is not surprise to consider the wine as the No. 1 food sector in France. Whether or not the French wine sector can maintain its outstanding performance in the future remains to be seen, due to major changes in worldwide consumption patterns and the pressure from those countries with high quality, relatively cheaper wines, as well as in production practices in the European Union (EU).

French wine consumption has dropped by half since 1970, currently representing 60 liters per capita, a three- percent decrease compared to 1995. This trend may be explained by the fact that women, representing France's buying force for foods, are becoming more and more sensitive to healthy beverages. At the same time the younger generation prefers to drink beer instead of wine, which is more closely linked to their lifestyles^{lviii}.

In response to increasing competition in France and Europe, and in view of changing consumer preferences in France and in foreign countries, ONIVINS (French national interprofessional office) and SOPEXA (Directories of French exporting enterprises) have launched advertising campaigns targeting both the domestic and the export markets. On

the domestic market, campaigns focus on regional wines, while on the international market, high quality wines were targeted.

In the view of domestic wine market in 1996, 29 million hectoliters of wine were consumed, from which 10 million hectoliters in restaurants, hotels and cafes, and 19 million hectoliters at home. Out of the 19 million hectoliters of wine consumed at home, 11 million hectoliters were purchased in supermarkets and the remaining 8 million hectoliters purchased in specialized stores or directly from the winegrowers^{lix}.

Sales of wines in supermarkets during CY 1996, were valued at FF 18 billion (\$3.5 billion), an increase of 6.5 percent in value over 1995. 6 million hectoliters of supermarket wine sales were table wines, mostly red and 5 million hectoliters VQPRD wines, again mostly red. Sales of red wines in France represent 76 percent of purchases, rose wines, 13 percent and white wine, 11 percent. This trend has not changed for many years, but rose wines have recorded an increase demand for ten years. The average consumer price for table wine is 9-13 FF (\$1.7-2.5), and FF 15-28 (\$2.9-5.5) for VQPRD wines.

In 1996, French producers of Champagne wine sold 255.8 million bottles. From this amount, 95.2 million bottles were exported and 160.6 million bottles were consumed in France, with 55 million bottles sold in supermarkets. (See table 14)

Table 14 All Wine Marketing In France (In 1,000 Hectoliters)

	1994/1995	1995/1996	1996/1997
Beginning Stocks	26,420	39,155	52,164
Production	54,640	55,610	59,650
Imports	6,522	5,214	5,396
Total Supply	87,582	99,979	117,210
Exports	12,100	13,020	14,244

Consumption	36,273	34,795	33,795
Ending Stocks	39,155	52,164	69,171
Total Distribution	87,582	99,979	117,210

Source: General French Customs Office

ITALY As the conventional world's largest producer, exporter, and consumer of wine, Italian wine production in 1997 was about 50 million hectoliters, which were 15 percent less than in 1996 and the lowest crop in the last 40 years^{lx}. Weather conditions were particularly unfavorable for the vine growth and grape yields in this year, while continued frosts dramatically cut the vine yields in many leading producing regions, like Puglia, Sicilia, and Calabria, Southern of Italy, which accounts for almost 40 percent of Italy's total wine production^{lxi}. Although warm, sunny days in late of this year were extremely favorable for the ripening process and resulted in excellent sugar content in the grapes. As a result, Italian wines' excellent quality this year was somewhat offset by its the relatively low quantity. (See table 15)

In spite of the fact that Italian wine acreage continues its slow decline (see table 9), Italy still stays on the top of wine production. This is because of the merging of acreage happened in the land with main old and less productive vine being pulled. As a result, the overall production numbers did not get affected. In the other hand, decreased Italian wine output contributed to a substantial cut in the distillation programs, which support growers' incomes. In 1995~1996 distillation preliminarily was about 2.2

Table 15 Wine Supply and Distribution In Italy (1,000 Hectoliters)

	1992/1993	1993/1994	1994/1995	1995/1996	1996/1997
Total Production	68,686	62,672	59,290	56,201	59,000
Wine Production	68,086	62,068	58,677	55,600	58,400
Beginning Stocks	24,164	27,780	23,523	22,200	24,784
Imports	490	281	233	314	300
Total	92,740	90,129	82,433	78,114	83,484

Supply					
Exports	11,387	15,015	19,462	14,900	16,000
Consumption	35,843	35,859	35,071	34,800	34,600
Losses	250	250	250	250	250
Industrial Uses	17,480	15,482	5,450	3,380	5,500
Domestic Consumption	53,573	51,591	40,771	38,430	40,350
Ending Stocks	27,780	23,523	22,200	24,784	27,134

Source: Eurostat, ISMEA, Agmincom Office

million hectoliters, the lowest level reported in recent years. For 1996~1997, however, increased domestic production and declining prices could cause a larger volume of wine to be distilled.

Italian wine exports began to decline in 1996 to 13.4 million hectoliters, or 22 percent less than in 1995. The Primary reason is due to the lower import demand from other EU countries. However, in the other hand, export value, rose by 2 percent, which reflected much higher prices for selling. As usual, The main destinations of Italian wine were Germany (38 percent of the total), France (23 percent), the United States (8 percent in volume but 17 percent in value) and the United Kingdom (7 percent). Significant volumes were also exported to Switzerland, Canada and Japan^{lxii}. In these years, Thailand, Indonesia, and China are becoming more and more important destination for Italian wine.

In the domestic market, Italian per capita wine consumption of has backward to at 57 liters after a continuous decline of over 100 hectoliters in the 1970's. Many consumers are turning from table wines to more high quality wines, but wine is facing tough competition from beer and soft drinks with younger consumers^{lxiii}.

During the change on the production and declining of acreage, the prices are always the important issue for Italy wine. After a prolonged depressed market, domestic wine prices recovered remarkably between 1994 and 1996, mainly reflecting expanded

export demand as well as reduced domestic supplies. In response to reduced EU production, prices also have been high during the early of 1996. The following table shows producer prices of table wines for 1991-96, as elaborated by ISMEA (Institute for Studies, Researches and Information of Agricultural Market, Italy. Index 1990=100).

Year	1991	1992	1993	1994	1995	1996 (Jan~Oct)	1997 (Jan~Oct)
Index	92.5	84.6	74.6	92.4	135.8	156.9	134.6

For the 1997~1998 marketing year, It was not more favorable for the producers, although the excellent quality of this year's vintage greatly benefited their wine industry, however, the strongly reduced domestic production and increased crops in competitor countries, especially those new world countries, like Chile Argentina, Australia offset what it got on the quality. As a result, the export of wine drop down by 9% compared with 1996~1997^{lxiv}.

SPAIN Spanish vineyard acreage is the largest in the world (**See table 11**), accounting for about 17 percent of global vineyard area. Nevertheless, total Spanish wine production ranks only third behind French and Italian production. The primary reason is due to the Spain's Mediterranean weather. Spain is located by the Mediterranean, where is sunny instead of rainy. The lack of rain and relatively low wetness bring Spain low unit production of grape. Wine consumption in Spain declined once again in 1995 to about 30.4 liters/capita. This fall in consumption represents a continuation of long term downward trend in total Spanish wine consumption. The previous year's high prices contributed to lower consumption. Quality wine consumption was also down, where this dropping broke a previous tendency of steady increase. In an other hand, the EU vineyard-uprooting program led to the production and consumption in

1996 smaller than normal vintage. The 1996 vintage was expected to be made up of about 11 million hectoliters of quality wines and 18.6 million hectoliters of ordinary table wines. While in terms of volume Spanish wine exports for 1995 declined 20 percent to 6.65 million liters, in terms of value they rose 10 percent to about \$1 billion, reflecting increased domestic prices as well as more quality wines versus table wines in the composition of Spanish wine exports. The rest of EU continues to be the predominant foreign destination for all types of Spanish wines, followed by the U.S. and Canada for quality wines, and certain African markets for table wines^{lxv}. (See table 16)

Table 16 Spanish Wine Marketing Figure (000 hectoliters)

	1994	1995	1996
Production	21,000	18,400	29,800
Consumption	13,352	12,558	N/A
Imports	556	2,593	N/A
Exports	8,246	6,650	N/A

Source: USDA data

CHILE Chile has become to be the South American best wine region for over 15 years. With the introduction of temperature control, and stainless-steel vats technology in 1970s, Chilean wine quality got greatly improved. As Chile exported more wine during 1980s, it become evident that Chile has been able to make good-value red wines and white wines^{lxvi}. Some high quality Chilean red wines is becoming tough competitor for French and Italian wine in globe wine market, especially in United States high-end wine market. As new vineyards and wine grape growing techniques are developed, Chile's wine, like Chardonnay and Sauvignon Blanc wines are quickly climbing to the world-renowned quality of the country's Merlot and Cabernet Sauvignon vintages. The mild climate of the wine grape-growing region, along with the ideal soil conditions, make for

high quality wines. Growth in wine grape acreage, numbers of vineyards and investment in production are combining to position Chile as one of the world's great quality wine producers over the next several decades^{lxvii} (See Table 17).

Table 17 Wine Supply and Distribution In Chile (Hectoliters)

	2000*	1999*	1998	1997	1996	1995
Beginning Stocks	N/A	3,581,000	2,868,000	3,372,111	2,839,596	2,470,899
Total Production	7,500,000*	5,930,000*	6,274,000	5,359,000	4,569,950	4,950,000
Imports	N/A	10,000*	9,900	13,400	6,120	7,500
Total Supply	N/A	9,611,000*	9,241,000	7,220,671	7,415,673	7,428,399
Exports	3,500,000*	2,550,000*	2,510,000	1,295,075	1,846,774	2,310,000
Dom. Consumption	4,629,000*	3,160,000*	3,150,000	3,086,000	3,098,000	3,100,000
Ending Stocks	N/A	3,901,000*	3,581,000	2,839,596	2,470,899	2,018,399
Total Distribution	N/A	9,611,000*	9,241,000	7,220,671	7,415,673	7,428,399

Source : National Agricultural Society (SNA) and Central Bank.

Note: " * " represents projection

Chile has been recognized as the premier quality wine producer in South American. A larger winegrape harvest and increased wine production in 1997~1999 were the result of excellent weather during most of the growing season. The quality of the vintage is also excellent. Chilean wine exports continue to boom beyond previous projections. This is the evident that Chilean wines are getting more popular in the globe wine market. In this year, the amount of Chile quality wine has a slight jump over last year. Chilean wine production is expected to increase close to 20 percent between 1997 and 2000, based on additional plantings and replacement of existing vineyards. The estimate wine exports will reach at least \$680 million, by the year 2000, with a volume of about 350 million hectoliters^{lxviii}.

As an important exporter of wine, Chile exports both bottled and bulk wine. While the volume of bottled wine exports has been increasing over 30 percent yearly for the last three years. Bottled wine with certificate of origin represented 52 percent of the total

wine exports in 1998, up from 46 percent the previous year. Currently, Chile exports wine to over 100 countries. Japan and the United Kingdom were the largest markets for bottled wine in 1998, and Canada was Chile's largest bulk wine market in the same year. However, in terms of wine value, the United States and the United Kingdom place first and second, followed by Japan and Canada, as Chile's largest markets for wine, bottled and bulk^{lxix}.

Average export prices for Chilean wine rose 13 percent during 1998. The same year export volume rose only 12 percent and the value of Chile's wine exports increased 26 percent. This development reflects the gradual improvement in the average quality of exported Chilean wines. The largest expansion in Chile's exports in 1998 was in bottled wine.

ARGENTINA is the fifth largest wine producer in the world (see table 11,12), and the largest in the Southern Hemisphere. Grapes for wines are harvested from April through May^{lxx}. This long harvest season provides Argentina significant source of wine grape for production. According to the National Wine Institute (NWI), total wine production in 1999 is forecast at 15,851,750 hectoliters, compared with the production of 12,546,763 hectoliters in 1998, that is nearly 26 percent up. As with other countries, in 1998 Argentina has suffered the effects of the climatic phenomenon known as El Nino, with its characteristics of excessive rains in some regions and droughts in others. However, the weather in Argentina, especially in those main grape regions, was not as bad as it was in Europe last year. Climatic conditions were very good for grapes for wine this year, with practically no rain during the ripening period, and with the necessary temperature for

obtaining the right sugar content. That considerably benefits Argentina's wine business, in other words, that is going to give a 26% jump on the wine production^{lxxi}.

The National Wine Institute (NWI) reports that there are more than 210,000 hectares of vineyards in Argentina. Mendoza and San Juan provinces are the main planting grape regions, which are accounting for 92 percent of the country's total. While others agricultural producers face a difficult situation due to the current low prices received for their output, the winegrowers are much happier for what they have been paid this season. For instance, for fine grapes, they got paid 60 cents per kilo this year, or 35 percent higher than last year^{lxxii}.

Consumption of wine in 1998 was 12,950,000 hectoliters, slightly down 0.2% from the 12,976 hectoliters consumed in 1997. Three years ago from now, Argentine drank wine roughly 13,369,000 hectoliters in 1996. That was 3.6% more than they do now. In fact, the consumption dropped sharply during the last 25 years from 80 liters in 1970's to 38 liters in 1996 and an actuarial 37.3 liters in 1997. Per capita consumption for 1998 of juices and other beverages in liters were as follows: Juices: orange 0.51, soft drinks, 68.1, wine, 36.9, and beer, 29.5. Per capita consumption during 1997 was as follows: 30.5 liters beer and 64.2 liters soft drinks. In 1996, the figures were 29.4 liters beer and 59.1 liters soft drink^{lxxiii}.

During 1998, Argentina exported 1,073,925 hectoliters. That was a total value of US\$ 102.3 million of wine. This amount surpassed the value of 1997 of 72 US\$ million, the highest ever since Argentina started exporting fine wines. For 1999, it is expected nearly the same export value as for 1998, although some exporters believe that it could be increased by 20 percent or more. Total imports of wines during 1998 totaled 46,693

hectoliter against 75,264 hectoliter a year ago. In 1998, the principal sources for table wines were Spain with 38 percent followed by Germany with 28 percent. For fine wines, Chile was in the first place with 38 percent of total imports, followed by France with 27 percent and Italy with 9 percent^{lxxiv}.

AUSTRALIA As the world's eleventh-largest wine producer, Australia has produced wine for almost two centuries. Its present focus on dry table wines just dated from the 1960s. With the unique climate, Australia can send its vintage wines to the markets, especially the markets in New Hemisphere, six months before its competitors^{lxxv}. This gives Australia the significant chance to export its quality wines to and penetrate the wine markets.

Australian winegrape and wine industry has changed significantly in the last decade. Production of premium wine grapes is also forecast to reach record levels. The 1998-99 season enjoyed a mixed season. This resulted in lower than average yields in most regions. However, premium red and white wine varieties have increased by nine and four percent respectively compared to the previous year. Production of multipurpose grapes for wine making has decreased by around two percent according to the Australian Bureau of Agricultural and Resource Economics (ABARE)^{lxxvi}.

Australia's major export markets for wine in recent years have been the United Kingdom, the United States, New Zealand, Canada, Ireland and Sweden. Australian wine imports comprise less than five percent of the total value of domestic wine sales with tables wine and sparkling wines traditionally being the major import categories. The volume of imports fell by around 33 percent during 1996-97, however the value actually

increased by around 10 percent. This was due mainly to a reduction import of low value bulk wine due to a vastly improved vintage^{lxxvii}.

The Australian market is perceived to have become more sophisticated and as such consumers are consuming less but of a higher quality and price. This trend is expected to continue. In according to the report of Australian wine competition, the figure indicates that Australian wine consumption has stabilized in recent years after showing a steady increase in the past two decades, beer consumption has shown a steady decline, falling from around 136 liters in the mid 1970's to under 95 liters in 1996-97. Per capita consumption of spirits has remained steady over that period^{lxxviii}.

The composition of wine consumption varies between different age groups. However it appears that of consumers judged to be regular wine drinkers around one third more women drink wine than men are. White wine is more likely to be consumed by females than males with the reverse true for red wine. It is estimated that 72 percent of those persons who drank wine consumed wine mainly with a meal. Around 68 percent of wine drinkers consumed wine at home while 22 consumed wine at restaurants.

SOUTH AFRICA As a new comer in the wine New-World, in 1998, South African wine production declined 12%, from 8,809,150 to 8,155,750 hl (**see table 18**). This decline is the result of the unfavorable weather conditions that impacted badly on grape quality. On the contrary, wine exports increased 30%, from 1,126,661hl to 1,162,211hl. The wine and spirit industry in South Africa is a very important part of the agricultural sector. Wine production in South Africa is export oriented. In 1998 exports increased from 1,126,661hl to 1,162,211hl, with most exports going to the Europe. Despite its importance, South African trade sources indicate that the European market is

shrinking. In its domestic wine market, according to South African Trade Sources, there is an increase in the domestic consumption of wine. This increase is attributed to the expansion of trade outlets, and the market development efforts being embarked on to promote wine consumption amongst other South African population groups, which is currently dominated by White race group.^{lxxix}.

Table 18 The Wine situation in South Africa

	1997	1998	1999*
Area under wine grapes(ha)	98,000	100,979	103,000
Total production(hl)	8, 809,150	8,155,750	8,775,000
Production of good wine(hl)	5,466,890	5,443,880	5,450,000
Good wine sold - local (hl)	4,004,170	3,832,070	3,900,000
Natural wine - export (hl)	1,084,891	1,097,517	1,100,000
Volume of certified wine(hl)	1,238,531	1,281,396	1,300,000
Imports(hl)	145,387	96,948	95,000
Exports(hl)	1,126,661	1,162,211	1,175,000

Source: USDA, Foreign Agricultural Service

Note: " * " indicates projected figure.

The inception of the Government of National Unity brought major changes in the wine industry, which resulted in tremendous growth of exports. As a result of this situation foreign demand of South African wines has soared, and it is now so great that many varieties are sold only on the overseas markets. In 1998 wine exports increased 30%, from 1,126,661hl to 1,162,211hl. This increase is attributed to aggressive marketing and promotion efforts to ensure that South African wine gain and reclaiming the market share lost during the isolation years. The Europe serves an important market outlet for South African Wines^{lxxx}.

2. Future Situation

With the pressure, which comes from the rapid emergence of exceptional producers in the US, South America, Australia, and South Africa, the Old World is facing the

biggest challenge that it has never encountered before. European producers have been pressed to improve quality and launch aggressive marketing campaigns to save their businesses during the recession. In this competitive field, most old-world wine-producing countries have taken the actions to consolidate their dominance in traditional wine markets. With the long and traditional wine history, they have been allowed to own the great sources to develop their wine technology and wine quality. On the contrary, the New World countries are putting more efforts into entering and sharing the biggest, most profitable wine market in Europe and the most promising wine market in Asia and North American, where they are utilizing their efficient advantages on pricing and labeling. It can be imaged that there will be more and more difficulties, which are going to be encountered by those winemakers. In order to wine the competition and survive in the competition, almost every winemaker and wine distributor have to work hard on the wine quality and price to keep and satisfy the fussy customers.

3. Implications

In Europe Union, with the traditional subsidy policy on the agriculture products, the most of grape growers and wine producers are able to keep low cost on the grape planting and crushing with taking advantage of this unfair policy. This has benefited European own wine business on competing with those foreign winemarketers. In the meantime, the most of European consumers have enjoyed traditional European wine to accompany their meal. This gives the European wine producer the very dependable source and easy chances to build their wines very solid prestige and sell in a more profitable price. With this traditional prestige, the European wines are always the favorite and the first choice in almost every event, even if they are not the "best buy". How ever, for those foreign

wines makers and marketers, to earn this prestige, they need to be patient and aggressive on entering the market. They have to put more focus and efforts on the wine issues.

Fortunately, they are getting closer and closer.

III. Government and Public

1. Current Situation

In terms of globe market, agriculture is heavily subsidized in most of countries in the world. As grape is classified into farm product, the associated businesses with grape, such as grape growing and wine crushing businesses are usually subsidized under the subsidy policy. In general, there are essentially two types of subsidy policies to agriculture: market-price support and government subsidies. Market-price support operates directly through price-related support of outputs and purchased inputs. This support (which, when negative, is referred to as taxation) derives from domestic price interventions supported by foreign trade barriers such as tariffs and quantitative restrictions (QR's) on both imports and exports. The second type of support involves government budget transfers or subsidies made by national as well as regional governmental bodies. These subsidies, such as subsidies for capital investment, credit subsidies, land improvements, direct payments, research and extension, and others, do not directly affect market prices. Budget outlays that are part of price-support programs (such as the price-intervention purchases) are excluded since the price-related measures capture the effects of such programs^{lxxxi}.

With the two types of support policy to agriculture, the governments always involves into those primary highly sophisticated subsidy programs. According to Richard Lobb of the National Chicken Council, every country subsidizes agriculture, but the Europeans

have raised it to a fine art. For most wine producers from the New World, Europe is the worst kind of wine trade enemy: an impenetrable market and a predatory exporter. EU farm tariffs average about 18%, but duties on major commodities such as grain can be double the average, and EU quotas are designed to keep foreign farm products out of Europe until domestic supplies are exhausted. At the same time, EU farmers count on a vast net of price guarantees, production subsidies, land set-aside allotments and other payments that can total more than half of farm income. The EU system encourages farmers to overproduce. Surpluses are sopped up with \$5 billion to \$10 billion in annual subsidies for exporters who buy high-cost European farm goods. With subsidies in hand, exporters can peddle EU commodities cheaply on world markets, undercutting prices for goods from other countries^{lxxxii}.

Practically, In Italy, ICE (Italian Trade Commission), an Agency of the Ministry of Foreign Trade, has always been the main institution providing export promotion assistance in foreign markets. Funds to promote Italian wines have been allocated to ICE by both the Ministry of Agriculture and the Ministry of Foreign Trade. For example, The Ministry of Foreign Trade independently allocates 1.5 billion lire per year (slightly less than \$1 million) to be channeled thorough ICE for trade show participation^{lxxxiii}. In Australia, Production of grapes for wine making in Australia receives little Government assistance. Growers can write off against taxation commitments the cost of the acquisition and planting of vines over four years. The Australian government also provides funds on a dollar for dollar basis for research and development up to 0.5 percent of the gross value of production. Likewise, in other wine-producing countries, there are also similar programs in order to make domestic wine industry be able to deal with tough

competition^{lxxxiv}. Although they come in different form, the main strategy is to enlarge the domestic wine demand, encourage more people to drink and develop oversea wine market and increase export more wine.

On the other hand, having progressed from a European Community in 1960s and 1970s, to a European Community in 1980s, and a European Union in the 90s, the wine nations have all updated and amended their wine laws to bring their legislation in line with an overall framework. That result is that France, Italy, Spain, Germany, Portugal all have appellation laws which fit that framework. The overall objective of the European Union has been to encourage a reduced production of *vin ordinaire* (one type of expensive wine, which results from the expeditious harvest of the Gamay Noir grapes, rapid fermentation and speedy bottling. These are young wines--light and fruity with a very limited shelf life--that are meant to be quaffed, not critiqued^{lxxxv}.) and an increased concentration on quality wine production. Because the huge quantities of surplus *vin ordinaire* produced, particularly in France, Italy and Spain, is becoming the big problem for these primary wine-producing countries and wine-consuming counties^{lxxxvi}.

2. Future Situation

In the global wine market, in addition to the competition from New-World wine Producing countries, the primary wine producing nations, like some European countries, France, Italy, Spain, Portugal, and Germany are facing another challenge. European and American consumers are drinking less wine. Europeans and Americans have become far more choosy, preferring premium "best buys." The future for Europe's wine producers does look brighter. To respond to the challenge, Europeans are adopting new labeling and

marketing strategies so that more new consumers are attracted to drink. The European Union (EU) is also addressing declines in demand for European wines by proposing a program to cut excess production.

As economies worldwide expand, more wine will be bought. Eastern and Central European countries, as well as Latin American countries, Asian countries, Australia and South Africa will begin supplementing more wine. And producers will continue to improve wines to appeal to quality-conscious consumers.

3. Implications

Wine consumption in Old-World wine-producing countries has always been substantially higher than in the New-World wine-producing countries^{lxxxvii}. The history of wine in Europe and its acceptance as a beverage for daily use have resulted in a set of unwritten laws about when and how to drink wine. Even so, per capita consumption in all Old-World countries is declining, at the same time as production of higher quality wines in those same countries is increasing. So in the future wine market penetration, price will not be the primary advantage, but the wine quality.

Part III Export Wine to China

The Industry Report for 21st Century Wine Co.

I. Specific Product.

With the strongly increasing of importing foreign wines, especially, the wines from both of North and South America, Chinese wine customers tend to be more willing to accept their taste and reasonable price. Among those wines, California red wine is becoming the star in the China's booming wine market. More and more people enjoy their very special drinking style—California red wine mixed with spite or Coca^{lxxxviii}. For the very good taste, solid prestige and their relatively not too expensive price, California red wines are nearly the first choices for most of banquets and anniversaries. In a marketing view, nothing will be better than the situation that helps to promote wine in that market. In order to get involved into this promising market, Fortune Wine Co. is going to focus on those low-medium prices wines (See table 19)

Table 19 Great California Wines (Under \$10) target China Wine Market

	Red Wine	Price (\$)	White Wine	Price (\$)
1	New Eagle Peak Merlot	5.99	Geyser Peak Chardonnay	4.99
2	Newland Ponot Noir	8.99	Carneros Creak Fleur de Carneros Chardonnay	3.99
3	Napa Villages Pinot Noir	7.99	Fetzer Barrel Select Chardonnay	7.99
4	Fetzer Barrel Select Zinfandel	9.99	Meridian Sauvignon Blanc	9.99
5	Parducci Zinfandel	5.99	Geyser Peak Sauvignon Blanc	9.99
6	Ridge Sonoma County Zinfandel	4.99	Hogue Dry Riesling	7.99
7	Amador Foothills Zinfandel	4.99	Hogue Late Harvest Riesling	4.99
8	RH Phillips Night Cuvee Rhone influenced blend	6.99	Fess Parker Riesling	5.99
9	Mirrasou Petite Sirah	8.99	Paraiso Riesling	8.99
10	Louis Martini Barbera	8.99	Bonny Doon Pacific Rim Riesling	6.99

Source: <http://www.winespectator.com/Wine/Spectator/current|4904178794394908927239202564>

II. Domestic Consumption

China's wine consumption has increased rapidly during recent years. But the annual wine consumption per capital is still stay at a very low level. At present, annual per capita wine consumption is 6 liters in the world while no more than 0.3 liters in China. How ever, with a 1.2 billion huge population, China's total wine consumption in 1997 was ranked at 11th in the world. That's why the potential market for wine is huge. (See tables 20 &21)

Table 20 (Top 25) World Wine Consumption by Country (000 hectoliters and gallon)

Country Rank	1997			1996			1995	
	Hectoliters	Gallons	% of 96/95	Hectoliters	Gallons	% of 95/94	Hectoliters	Gallons
1. France	34,941	923,071	0.4%	34,795	919,214	-4.7%	36,515	964,653
2. Italy	33,820	893,457	-2.5%	34,693	916,520	-2.6%	35,623	941,088
3. United States *	19,835	524,000	3.4%	19,191	507,000	7.9%	17,791	470,000
4. Germany	18,580	490,846	0.0%	18,580	490,846	0.0%	18,580	490,846
5. Spain	14,528	383,801	0.5%	14,459	381,978	-5.7%	15,336	405,146
6. Argentina	13,505	356,775	1.0%	13,365	353,077	-3.8%	13,888	366,893
7. United Kingdom	8,157	215,492	19.8%	6,811	179,933	8.1%	6,303	166,513
8. Russia	5,900	155,866	0.0%	5,900	155,866	-1.7%	6,000	158,508
9. Romania	5,889	155,576	-18.9%	7,260	191,795	10.8%	6,554	173,144
10. Portugal	5,600	147,941	-3.4%	5,800	153,224	1.8%	5,695	150,451
11. China	4,388	115,922	7.1%	4,098	108,261	4.0%	3,941	104,113
12. South Africa	4,022	106,253	0.0%	4,022	106,253	-2.0%	4,102	108,367
13. Switzerland	3,500	92,463	17.8%	2,971	78,488	6.1%	2,800	73,970
14. Australia	3,472	91,723	5.3%	3,297	87,100	0.7%	3,275	86,519
15. Greece	3,200	84,538	0.0%	3,200	84,538	0.0%	3,200	84,538
16. Yugoslavia	3,008	79,465	21.9%	2,468	65,200	5.2%	2,346	61,977
17. Hungary	2,945	77,801	-4.5%	3,084	81,473	13.4%	2,719	71,831
18. Brazil	2,730	72,121	21.3%	2,250	59,441	-27.1%	3,085	81,500
19. Austria	2,545	67,234	0.0%	2,545	67,234	-3.6%	2,640	69,744
20. Belgium	2,444	64,566	20.5%	2,029	53,602	-	-	-
21. Croatia	2,126	56,165	25.8%	1,690	44,646	9.2%	1,547	40,869
22. Japan	2,121	56,033	23.5%	1,718	45,386	9.4%	1,570	41,476
23. Netherlands	2,102	55,531	2.1%	2,058	54,368	-4.9%	2,165	57,195
24. Canada	2,101	55,504	4.2%	2,016	53,259	13.6%	1,775	46,892
25. Chile	1,922	50,775	-16.1%	2,291	60,524	7.5%	2,132	56,323

Note: Totals may not exactly convert from hectoliters to gallons and vice versa due to rounding of the multiplier.

Source: Wine Institute based on data from Office International de la Vigne et du Vin (O.I.V) and Gomberg, Fredrickson & Associates.

The average wine consumer in China is between 20 and 35 years old, relatively affluent and lives in an urban area. But with the more and more concern about the impact

of the wine on the health, especially the benefits of the red wine on the health, other elder generations begin to take wine drinking with their meal^{lxxxix}.

Table 21 (Top 25~50) World Wine Consumption by Country (000 hectoliters and gallon)

26. Uzbekistan	1,728	45,650	0.0%	1,728	45,650	-30.6%	2,489	65,754
27. Moldova	1,550	40,948	-22.8%	2,009	53,074	51.6%	1,325	35,004
28. Denmark	1,515	40,023	7.1%	1,414	37,355	18.5%	1,193	31,517
29. Czech Republic	1,262	33,340	6.8%	1,182	31,226	21.1%	976	25,784
30. Uruguay	1,082	28,584	12.4%	963	25,441	8.2%	890	23,512
31. Slovenia	1,066	28,162	-5.2%	1,124	29,694	4.9%	1,071	28,294
32. Sweden	1,051	27,765	-8.0%	1,142	30,169	40.8%	811	21,425
33. Bulgaria	675	17,832	-16.4%	807	21,319	-0.5%	811	21,425
33. Bulgaria	675	17,832	-16.4%	807	21,319	0.9%	800	21,134
34. Georgia	650	17,172	-7.1%	700	18,493	0.6%	696	18,387
35. Ukraine	540	14,266	-14.7%	633	16,723	85.6%	341	9,009
36. Poland	515	13,605	48.8%	346	9,141	-15.0%	407	10,752
37. Slovakia	422	11,148	14.0%	370	9,775	16.4%	318	8,401
38. Norway	417	11,016	14.2%	365	9,643	9.3%	334	8,824
39. Belarus	389	10,277	0.0%	389	10,277	25.9%	309	8,163
40. New Zealand	388	10,250	9.0%	356	9,405	114.5%	166	4,385
41. Morocco	329	8,692	-9.9%	365	9,643	30.4%	280	7,397
42. Lebanon	296	7,820	3.1%	287	7,582	52.6%	188	4,967
43. Ireland	289	7,635	41.0%	205	5,416	-	-	-
44. Luxembourg	265	7,001	27.4%	208	5,495	-26.2%	282	7,450
45. Finland	259	6,842	-3.0%	267	7,054	184.1%	94	2,483
46. Macedonia	259	6,842	34.2%	193	5,099	28.7%	150	3,963
47. Kazakhstan	227	5,997	39.3%	163	4,306	-18.5%	200	5,284
48. Azerbaidjan	200	5,284	0.0%	200	5,284	33.3%	150	3,963
49. Lithuania	191	5,046	-30.5%	275	7,265	58.0%	174	4,597
50. Bosnia-Herzeg	190	5,019	1.0%	188	4,967	8.0%	174	4,597
COUNTRY TOTAL	219,734	5,804,926	0.7%	218,120	5,762,295	2.0%	213,920	5,651,326
OTHER COUNTRIES	2,064	54,527	6.7%	1,935	51,119	45.1%	1,334	35,242
WORLD TOTAL	221,798	5,859,453	0.8%	220,055	5,813,414	2.2%	215,254	5,686,568

Note: Totals may not exactly convert from hectoliters to gallons and vice versa due to rounding of the multiplier.

Source: Wine Institute based on data from Office International de la Vigne et du Vin (O.I.V) and Gomberg, Fredrickson & Associates.

Chinese consumers do not necessarily serve wine in the traditional way. Iced red wine is popular--white wine is often mixed with colas and red with lemon/lime sodas. Regardless of differing ways of appreciating the product, domestic wine output in 1997 is on the rise, approached at 4.5 million hectoliters (hl.), up 50 percent from 3 million hectoliters (hl.) in 1996^{xc}.

III. Trade Data

1. Imports / Exports of Wine

Beijing, Shanghai, Tianjin and Guangzhou (the biggest cities in China, see map at AppendixB) report that imported wines have increased several-fold in the past few years. According to Shanghai Customs Statistics, 1997 wine imports volume were at 1.06 million liters (U.S.\$ 1.22 million) through the Port of Shanghai from January to April, an increase of 48 times compared with the same period in 1996. Among the imported wines, red wine has a market share of more than 80 percent^{xc1}. (See Table 22)

Table 22 **China Wine Exports and Imports**

	1995	1996	1997(1st Quar.)
Bulk table wine	\$ 4.4 Million	\$ 5.5 Million	\$ 1.4 Million
Exports	2.6 M Liters	22.9 M Liters	0.6 M Liters
Bulk table wine	\$ 2.2 Million	\$ 5.9 Million	\$ 6.4 Million
Imports	0.7 M Litters	4.6 M Litters	6.3 M Litters

2. Domestic Production

Annual domestic production of wine in China was only 180 thousand metric tons in 1994, rose to about 300 thousand metric tons in 1996 and may reach 560 thousand metric tons in 1997. The local famous brands of -wine are Great Wall, Dynasty, Dragon Seal, Lihua, Tonghua and Zhangyu. But the local wine production is far from satisfying demand which is around 700 thousand metric tons yearly. The future bodes well for Chinese vintners, who predict a yearly production of 26 million hl. by 2007. To accomplish this tremendous volume increase, producers would need to increase the current 163,000 hectares under grape cultivation to over 1 million hectares^{xcii}.

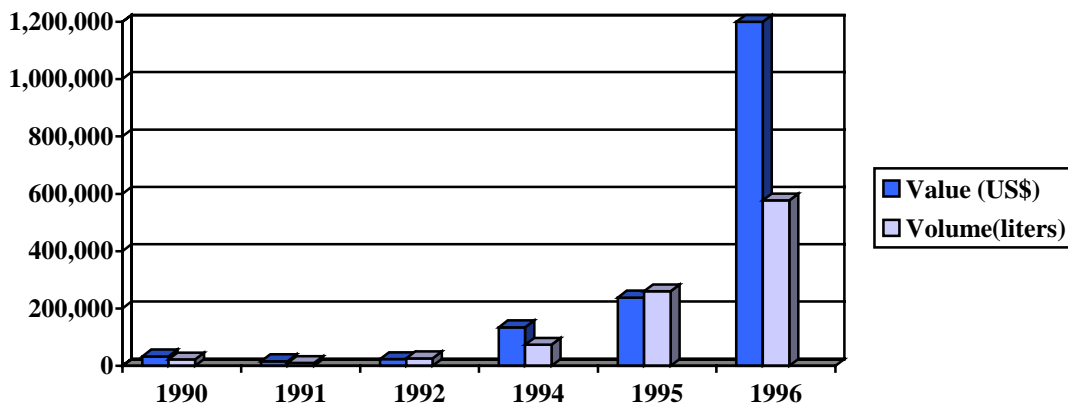
3. Wine imports from the U.S.

China's imported wines from U.S. rose from just under \$200,000 in 1995 to over \$1.2 million in 1996, an increase exceeding 500 percent (**Figure 6**). However, there is more room for growth. In China, per capita consumption of grape wine is 0.3 liter per year, compared to a world average of seven liters (24 liters in Western Europe). While the United States only holds about 1 percent of China's wine market, export figures have risen sharply. Whereas China imported \$123,454 of U.S. wine in 1994, it reached \$228,431 a year later, and hit \$266,000 in the first half of year 1996 alone. And there is the potential for continued growth: Japan, by comparison, buys \$32.5 million of U.S. wine each year^{xciii} (See table 23).

China Grows As Export Market

(U.S. wine sales in China since 1990s)

Figure 6



Source: The Wine Institute, U.S. WineStats

Table 23

China Wine Imports From U.S.

	1990	1991	1992	1993	1994	1995	1996
Bottled table wine	\$18,568	\$11,163	\$7,136	\$95,349	\$95,290	\$51,180	\$951,331
Bulk table wine	0	0	5,489	42,109	9,411	108,123	46,456
Nongrape wines*	0	0	5,050	22,256	16,126	25,960	32,928
Sparkling wines	13,722	3,316	0	10,896	2,627	43,168	39,081
Total imports	32,390	14,479	17,675	170,610	123,454	228,431	1,069,796

Source: US Department of Agriculture's Foreign Agriculture Service

* Note: Nongrape wines include cider and other fermented beverages such as wine collers, perry, and mead.

IV. Third Country Competition

French, Italians, Spanish, Australians and others came into the Chinese market fast and early. The wines from France, Italy have more expensive prices than others do. The Spanish and Chilean wines are relatively cheaper. According the Beijing customs statistics, the total wine imports went up to 760,000 liters (US\$ 690,000) through the Beijing port in 1997. Among the imported wines, Chilean wine accounted for about 72 percent. The primary reason was the cheap price. However, the Italian and French wines are still the traditional importing wines^{xciv}.

A clear measure of wine imports is hard to make—up to half of it may change hands on the black market. However, official numbers show imports of American wine have increased more than 20 times in volume since 1990. Imports of all kinds to China tripled during the same period^{xcv}.

V. Market Trends

1. Current Sales

Though China is no France, its grape wine market has grown tremendously in the past few years. At 346 million liters a year, it is now about one-fifth the consumption in the United States, according to the San Francisco-based Wine Institute. In terms of dollars, the total wine market is about \$ 592 million in 1997(not including distilled liquor and beer). However, China's winemaking industry has made great progress recently in terms of technological innovation and equipment improvement. Chinese consumers are now purchasing higher-quality and drier wines instead of lower quality sweeter wines. Now, the leading wines are French-style Dynasty (dry red & white), Imperial Court red, white, and champagne. These wines are mostly sold in retail market including supermarkets, food stores, and restaurants. Buyers are mid- income consumers who purchase wines for family dinner parties, gatherings of friends, and business meetings both at home and on the town^{xvii}.

Since the beginning of 1997, the consumption of imported wine has been continually increasing. This has been due to increased local consumption rather than to foreigners and tourists. In the high-end market, many consumers have switched from expensive cognac to expensive imported wines. In the low-end market, during the 1997's Spring Festival many people bought imported wines as well as domestic reds.

This was because the prices for imports (RMB 60 - 80 yuan) were competitively close to those for domestic products, which logically led people to buy, imported ones instead^{xcvii}

2. Current size of the market

Refer to table 24

1994-1997 Total market size (000 gallons)

Table 24

	1993	%	1994	%	1995	%	1996	%	1997	%
Total Market Size	83,176	100	91,486	100	104,113	100	104,113	100	114,886	100
Total Production	86,850	N/A	100,338	110	105,672	102	113,597	109	152,693	132
Total Imports	47	N/A	86	100	185	0.02	1,214	1.17	2,455	2.14
Imports from US	3	N/A	20	0.02	70	0.07	152	0.14	186	0.02

Source: Wine Institute based on data from Office International de la Vigne et du Vin (O.I.V.),
Gomberg, Fredrikson & Associates and Kristi Ivie. US department of Agriculture. China
General Administration of Customs.

3 Projected size of the market

The total China wine market size is currently 1.36 million gallons. This size is projected to grow at a rate of 12 percent annually. The projected Whole size in the year 2007 is 5.83 million gallons.

4. Issues that may have an impact on the company if they enter this market

Although this big potential market brings lots of good news and promising perspectives to those companies, which are going to get involved in the China Wine market, there are some important issues that must be paid attention. First of all, import tariffs and other taxes boost the price of wine by about 120 percent. All rates are ad valorem assessed on a CIF basis. Following are wine import duties and taxes. *Import Customs Duties* (ICD): 65%;

Value Added Tax (VAT): 17%; and Consumption Tax (CT): 10%.

Total import tax will be ICD+CT+VAT, to be calculated in the following formula:

Total Tax= [(ICD rate)+(CT rate) + (VAT rate) + (ICD rate) * (VAT rate)]/ (1 - CT Rate)

$$= [65\% + 10\% + 17\% + (65\% \times 17\%)] / (1 - 10\%) = 114.5\%$$

This makes lots of consumer go away from the imported wines. Secondly, besides tariffs, the imported wines face non-tariff barriers, import restrictions, government monopolies, currency restriction and strict labeling requirements. A further worry for importers—rumor persist that the Chinese government, looking to protect its weak domestic producers, plan to impose quotas on imports soon.

VI. Current Prices of Goods

With the benefit of wine to the health and an increasing taste for western-style wines, the consumption has been increasing since the 1990s. However, the relative low income limits Chinese consumer's purchasing power. The most of wine consumer prefer the low-end wines. The cheap domestic wines hold most share of the total market. However, the imported wines from France, Italy, US California, and Germany still have the very good prestige for the many Chinese banquets. In terms of price, the highest prices for comparable products (primary from France and Italy) in China are charged by \$ 22 ~ 56 per 750 ml bottle. The lowest prices for a comparable product (primary the domestic wines and Chilean wines) are charged by \$ 1.21 ~ 5.39 per 750 ml bottle. The current prices for wines in term of dollars per 750-ml bottle is shown in below^{xcviii}. (See table 25)

Table 25 Current Prices of Competitors in China wine market

IV. Competitors	V. Product Brand	VI. Price
Great Wall--Domestic	Great Wall	\$1.21~3.65
Zhangyu--Domestic	Zhangyu	\$2.16~5.76
Dynasty--Domestic	Dynasty	\$2.09~23.18
Dragon Seal--Domestic	Dragon Seal	\$3.47
Remy-Martin Cointreau--France	N/A	\$16~28
Allied Lyons--Hongkong	N/A	\$7.22~12.62
Groupe Pernod-Ricard--France	N/A	\$22~58
Rose Martini--Italy	Rose Martini	\$12~15

Source: China Business Review and Wine Business Monthly

VII. Specific Distribution and Sales Channels

1. Wholesalers

Montrose Food & Wine Co., which is a division of US-based Montrose International, has been importing wines in China for four years. It has a very sound selling net and distribution system. It becomes the biggest imported wine agents in China. Its many customers will utilized to be our detailers^{xcix}.

China Cereals, Oils & Foodstuffs Imp. & Exp. Corp., which is the primary national wholesaler and distributor of alcoholic beverages and the predominant importer and exporter of wines in China.

The import licensing system for wine imports is now more open so that CEROILS's quasi-independent branches at provincial or regional level as well as monopoly retailers,

often referred to as Sugar, Tobacco & Wine Corporations may import wines and spirits directly from other countries. Some of these companies have also de-monopolized their business by sub-licensing and forming joint-ventures with powerful trading and distribution companies, especially those from Hong Kong in order to facilitate capital flow and expand sales connections and expertise.

The advantage of working through CEROILS and its provincial and city offices is that we can reach local wholesalers, retailers, and consumers quickly because of their nationwide distribution network. This connects directly with numerous major hotels, restaurants, and supermarkets at various levels. A government-owned multinational company has a national distribution channel system. Nearly every potential retailer sells the imported goods distributed by this company. Its many subdivisions will become our distributors and sub-wholesalers^c.

Guangdong foodstuffs Import & Export (Group) Corporation, which is one of the largest enterprising Group in Guangdong province. It enjoys a good commercial reputation and was graded AA+ for credit by bank credit medium organ in 1998, it was awarded the title of "A Class enterprise by Guangzhou Customs; it was ranked as one of the top 500 import and export enterprises in China in 1997^{ci}.

2. Retailers

- Duty-free shops in the international airport of Beijing, Shanghai, Guangzhou, Dalian, Shenzhen, Tianjin.
- Tobacco and wine monopolized shops of China Cereals, Oils & Foodstuffs Imp. & Exp. Corp. in following provinces: Liangning, Guangdong, Zhejiang, Fujian, Shandong, Hunan and Hubei.
- Hotels, which belong to China National tourism Administration, and local Tourism Bureaus.
- Restaurants, which are belong to above hotels and private sectors.
- Supermarkets, which belong to the local Commercial Bureaus and private sectors.

3. Distribution system and problems.

21st Century Wine Co. will advocate establishing its own distribution system gradually in the future. It will not only depend on two or three wholesalers, but also develop more wholesalers so that the company can expand its products distribution channels and quality services. The basic and specific strategies are to work with local wine trading companies such as Asia Solutions Corporation (ASC), International Distillers (IDV), Shanghai Califirst Wine Co., Ltd. or Chinese Sugar, Tobacco & Wine companies to distribute wine through their own distribution outlets and sell directly to hotels and restaurants in three or five years. Another is use import licence from China Cereals, Oils & Foodstuffs Imp. & Exp. Corp.(CEROILS) and then select a well-connected local distributor, meanwhile doing the marketing, merchandising, and advertising themselves. To enter and

penetrate China wine market, keeping a solidified and long-term relationship with above three important wholesalers by holding a long-term agreement will be particularly important in the future wine business.

In term of distribution problems, the cost on the channels will be a critical issue for 21st Wine Company's business. The company has been consulted to cut any unnecessary channels and try to get the end customers as directly as possible.

VIII. Key Industry Contracts

Guangdong foodstuffs Import & Export (Group) Corporation

NO.2, Dong Hu West Road
Guangzhou, Guangdong, 520010
China, Peoples of Republic
Tel: 86-20-83854888
Fax: 86-20-83856823
E-mail: gzgdf@public1.guangzhou.gd.cn

Montrose Food & Wine Co

Beijing Office:
Lucky Tower B, Suite 1106
No.3 Dong San Huan Bei Lu
Chaoyang District, Beijing 100027
P.R.China.
Tel: (86-10) 6461-6401
Fax: (86-10) 6462-0153
E-mail: inquiries@montrosecina.com

Shanghai Office:
3304 Victory Mansion
2200 Kai Xuan Road
Xuhui District, Shanghai 200030
P.R.China.
Tel: (86-21) 6468-6758
Fax: (86-21) 6468-3293
E-mail: montrosh@public1.sta.net.cn

U.S.A. Office:
137 Rowayton Avenue
Rowayton, CT 06853
U.S.A
Tel: (1) (203) 838-9499
Fax: (1) (203) 838-8996
E-mail: MFWUSA@msn.com

Montrose Food & Wine H. K. Ltd.
Pacific Alliance Group Ltd.
Suite 1218, Two Pacific Place
88 Queensway
Hong Kong
Telephone: (852) 2918-0088
Fax: (852) 2918-0822
E-mail: albrecht@ghk.com.hk

Jiangxi Cereals, Oils & Foodstuffs Imp. & Exp. Corp.
200 Zhanqian Road
Nanchang, Jiangxi 330002,
P. R. China
Tel: +86(791) 624-6500, 624-6526
Fax: +86(791) 622-3843
E-mail: jxcof@public.nc.jx.cn

IX. Trade shows

1. 99 China Hangzhou International Food Exhibition (May 20~ May 25, 1999)

World Trade Center Zhejiang
15 Shuguang Road
Hangzhou, 310007
Zhejiang Province, China
Tel: 0086-571-7990888 (operator) or 7950000
Fax: 0086-571-7950018
Email: wtcz@wtcz.com

2. The 2nd Int'l Spirits, Wine & Beers Tech. Exhibition (Nov. 19 1999)

China International Ex. Center, Beijing

Hong Kong Exhibition Service Ltd.

9 /F, 23 Tioling Bldg,

Luyadao, Wanzai, HK

Tel: (852) 28118897

Fax: (852) 25165024

E-mail: aes@adsaleexh.com

3 The 5th Int'l Spirits, Wine & Beers Ex. (Sep. 23, 1999)

Shanghai World Trade Mart

Hong Kong Exhibition Service Co., Ltd.

23, Luya Rd,

Wanzai, HK

Tel: (852)-28041500

Fax: (852)-25283103

E-mail: exhibit@hkesmontnet.com.hk

X. Trade Association (Appendix C)

Appendix A---Regional map (Asia)

Asia



802015 (B01265) 7-92

Appendix B --- China Map



Appendix C---China Connections: (For more Information on Wine Trading with China)

***Commercial Office,
Consulate of China***
San Francisco, CA. 94115
(415) 563-4885

***Joe Rollo,
International Department***
The Wine Institute
San Francisco
(415) 512-0151

***Elisabeth Holmgren,
director of research***
The Wine Institute
San Francisco
(415) 356-7522

***Matchmaker Trade
Delegations
U.S. Department
Of Commerce***
(202) 482-1793

Penelope Prime
Professor, Department
Of Economics and Finance
Kennesaw State University
Kennesaw, CA.
(779) 423-6091

David Henderson
Montrose Food and Wine
(203) 661-9490

Appendix D—International Trade Associations in Wisconsin

Central Wisconsin World Trade Association
Dr. Richard Judy, President
c/o Division of Business and Economics
University of Wisconsin – Stevens Point
Stevens Point, Wisconsin 54481
Tel: (715) 346-2728

Wisconsin World Trade Center
Ms. Fran S. Meyers, Director
c/o Pfister Hotel
424 East Wisconsin Avenue
Milwaukee, Wisconsin 53202
Tel: (414) 274 - 3840

Madison International Trade Association
Mr. Richard Storch, President
c/o Storch International, Inc.
5721 Odana Road, #210
Madison, Wisconsin 53719-1289
Tel: (608) 273-8400

Milwaukee World Trade Association
Mr. Peter Beitzel, Executive Director
c/o Metropolitan Milwaukee Association of Commerce
756 North Milwaukee Street
Milwaukee Wisconsin 53202
Tel: (414) 272-3000

Northeast Wisconsin World Trade Association
Ms. Mary Shaw, President
c/o Aster forming Fabrics
6480 West college Avenue
Appleton, Wisconsin 54915
Tel: (414) 734 – 2607

South Central Wisconsin World Trade Association
Ms. Carla Lenk, Director
c/o Small Business Development Center
University of Wisconsin – Whitewater
Carlson Building, Room 200
Whitewater, Wisconsin 53190
Tel: (414) 472-3217

Western Wisconsin World Trade Association
Dr. Dennis R. Vanden Bloomen, Director
C/o department of Business
University of Wisconsin – Stout
243 TW, Jarvis Hall
Menomonie, Wisconsin 54751-0790
Tel: (715) 232 - 2311

Appendix E --- Sources of International Trade Information in Wisconsin

International development and Commerce

Education

Alliance(IDEA)

C/o David Steele, Director

J458 Schneider Hall

Department of Management and Marketing

University of Wisconsin – Eau Claire

Eau Claire, Wisconsin 54701

Lynn Murtaugh

Tel: (715) 836 – 5247

Tel: (608) 266-9330

Fax: (715) 836 – 2944

Dr. Dennis R. Vanden Bloomen

Research Coordinator-IDEA

Commerce

243 TW – Jarvis Hall

Department of Business

University of Wisconsin – Stout

Center

Menomonie, Wisconsin 54751-0790

Tel: (715) 232-2311

Fax; (715) 232-5004

2099

E-mail: Vandenbl@AOL.com

Eau Claire Industrial Development

Corporation

Heather Owens, International Trade Assistant

Commerce

3625 Gateway Drive, Suite B

Eau Claire, Wisconsin 54701 – 8187

Tel: (715) 834-0070

Fax: (715) 834-1956

International Trade Association Office

St. Morber's College

Center

Dr. Ruth Freiburger, Director

Wisconsin Department of

International Trade Bureau

Ms. Mary Regel, Director

123 West Washington Avenue

P.O. Box 7970

Madison, Wisconsin 53707

Tel: (608) 2660-1767

Europe/Asia: Mary

Japan/Korea: Melissa Meyer

Tel: (608) 266-0413

Wisconsin Department of

James Arndt

International Trade Consultant

c/o Bemis International Trade

St. Morber's College

100 Grant Street

De Pere, Wisconsin 54115 –

Tel: (414) 337-1333

Fax: (414) 337-4083

E-mail: arndt@sncac.snc.edu

Wisconsin Department of

Lou Janowski

International Trade Consultant

Middleton, Wisconsin

Tel: (608) 831-9456

Fax: (608) 831-6983

Small Business Development

Kevin Jones

Bemis International Trade Center
100 Grant Street
Claire
De Pere, Wisconsin 54115 – 2099
Tel: (414) 403-3100
Fax: (414) 403-4083

Schneider Hall
University of Wisconsin-Eau
Eau Claire, Wisconsin
Tel: (715) 836-5811
Fax: (715) 836-5263

US & Foreign Commercial Service

US department of Commerce
517 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-4588
Tel: (414) 297-3473
Fax: (414) 297-3479

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